

**ASAE 3450**  
(December 2022)

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

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



**Australian Government**

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**Auditing and Assurance Standards Board**

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## PREFACE

### **Reasons for Issuing ASAE 3450**

The AUASB issues Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, pursuant to the requirements of the legislative provisions explained below.

The AUASB is an independent, non-corporate Commonwealth entity of the Australian Government, established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B of the ASIC Act, the AUASB may formulate assurance standards for purposes other than the corporations legislation.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council, the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of International Standards on Auditing and to make appropriate consequential amendments to the Australian Auditing Standards.

The amendments arise from changes made by the IAASB to *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 2 *Engagement Quality Reviews* and ISA 220 (Revised) *Quality Management for an Audit of Financial Statements*.

## **Main Features**

This Standard on Assurance Engagements establishes requirements and provides application and other explanatory material regarding the reporting on financial information included in, or to be included in, a public or non-public document and the reporting on prospective financial information prepared for other purposes.

This standard is intended to supersede ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* (issued November 2012).



### **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Assurance Engagements is to be read in conjunction with ASA 101 *Preamble to AUASB Standards*, which sets out how AUASB Standards are to be understood, interpreted and applied.

Dated: 6 September 2022

W R Edge  
Chair – AUASB

## **STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3450**

### ***Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information***

#### **Application**

1. This Standard on Assurance Engagements applies to reporting on:
  - (a) historical financial information, pro forma historical financial information, prospective financial information and/or pro forma forecast prepared in connection with a corporate fundraising, and included in, or to be included in, a public or non-public document; and
  - (b) prospective financial information, including a pro forma forecast or a projection, prepared for any other purpose.

#### **Operative Date**

2. This Standard on Assurance Engagements is operative for engagements commencing on or after 15 December 2022.

#### **Introduction**

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

3. This ASAE deals with the responsibilities of the assurance practitioner when undertaking an engagement to report on the responsible party's preparation of financial information related to a corporate fundraising, or if the financial information is prospective, if it is prepared for another purpose. It applies to an assurance engagement to provide either a reasonable assurance or limited assurance report, or a combination report, on that financial information.
4. In some circumstances, the assurance practitioner may also have separately agreed to provide other assurance or non-assurance services related to the corporate fundraising. Such services are outside the scope of this ASAE. (Ref: Para A1-A2)

##### *Types of Financial Information Covered*

5. The types of financial information covered by this ASAE are historical financial information, pro forma historical financial information and prospective financial information (including a forecast, projection, or a pro forma forecast) prepared in respect of a corporate fundraising, or additionally if the financial information is prospective, if it is prepared for another purpose. The financial information may be in respect of one entity or multiple entities (for example, in the case of a merger or acquisition).
6. It is acknowledged that assurance engagements covered by this ASAE often involve the assurance practitioner providing assurance, and reporting, on more than one type of financial information. In such circumstances, the assurance practitioner conducts the engagement in accordance with the applicable requirements and related application and other explanatory material in the appropriate section of the ASAE, and reports the assurance conclusion for each type of financial information either in individual assurance reports (by type), or a composite assurance report (all types). Appendix 3 contains illustrative examples of composite assurance reports.

##### *Using this ASAE*

7. Paragraphs 16 to 92 inclusive of this ASAE set out core requirements, and paragraphs A4 to A71 inclusive set out the core related application and other explanatory material applicable to assurance engagements to report on the responsible party's preparation of

financial information in respect of a corporate fundraising, or prospective financial information prepared for another purpose. Requirements and related application and other explanatory material setting out the additional special considerations applicable to each of the different types of financial information covered by this ASAE are to be read in conjunction with the core requirements and related applications and other explanatory material, and are as follows:

- (a) Historical financial information - refer requirements contained in paragraphs 93 to 95 inclusive and related application and other explanatory material contained in paragraphs A72 to A74 inclusive.
- (b) Pro forma historical financial information - refer requirements contained in paragraphs 96 to 104 inclusive and related application and other explanatory material contained in paragraphs A75 to A84 inclusive.
- (c) Prospective financial information - refer requirements contained in paragraphs 105 to 118 inclusive and related application and other explanatory material contained in paragraphs A85 to A95 inclusive.
- (d) Projection – refer requirements contained in paragraphs 120 to 127 inclusive and related application and other explanatory material contained in paragraphs A96 to A98 inclusive.
- (e) Pro forma forecast - refer requirements contained in paragraphs 128 to 136 inclusive and related application and other explanatory material contained in paragraphs A99 to A106 inclusive.

*Types of Assurance provided in the Engagement*

- 8. In this ASAE, the following types of assurance are permitted on the different types of financial information:
  - (a) Historical financial information – limited or reasonable assurance.
  - (b) Pro forma historical financial information – limited or reasonable assurance.
  - (c) Prospective financial information (element 1 – assumptions) – limited assurance.
  - (d) Prospective financial information (element 2 – basis of preparation) – limited or reasonable assurance.
  - (e) Prospective financial information (element 1 – overall) – limited assurance.
- 9. The assurance practitioner may be requested to provide assurance on a single type of financial information (for example, a forecast), or multiple types of financial information (for example, a pro forma forecast and historical financial information). The assurance practitioner may be requested to provide limited or reasonable assurance on the financial information, or if the financial information is prospective, a mixture of limited and reasonable assurance on its different elements.
  - (a) An example of a limited assurance engagement involving a single type of financial information is a review of historical financial information.
  - (b) An example of a limited assurance engagement that involves providing assurance on multiple types of financial information is a review of historical financial information and pro forma historical financial information.
  - (c) An example of an assurance engagement involving a single type of financial information in which there are elements of the assurance conclusion which will be on a reasonable assurance basis and other elements will be on a limited assurance basis involves a forecast.

- (d) An example of an assurance engagement that involves providing assurance on multiple types of financial information involves a review of historical financial information (limited assurance) and a pro forma forecast where there are elements of the assurance conclusion which will be on a reasonable assurance basis and other elements which will be on a limited assurance basis.

The assurance practitioner exercises professional judgement<sup>1</sup> in determining the type of assurance that is appropriate to the type of financial information and possible in the individual engagement circumstances. (Ref: Para. A3)

10. In both reasonable and limited assurance engagements on financial information the assurance practitioner chooses a combination of assurance procedures which can include: inspection; observation; confirmation; recalculation; re-performance; analytical procedures; and enquiry. Determining the nature, timing and extent of assurance procedures to be performed on a particular engagement is a matter of professional judgement, taking into account the engagement circumstances (including the type of assurance to be provided), and consequently is likely to vary considerably from engagement to engagement.

#### *Applying Requirements in this ASAE*

11. In this ASAE, unless otherwise stated, the requirements are based on the engagement being to express limited assurance on the financial information. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the assurance practitioner performs in a limited assurance engagement will vary in nature from, and are less in extent than for, a reasonable assurance engagement.<sup>2</sup> A reference in the requirements to “if applicable, in a reasonable assurance engagement” is taken to mean that these requirements are to be performed in a reasonable assurance engagement either:
- (a) in addition to the limited assurance requirements within the same paragraph reference; or
  - (b) performed on a standalone basis, as a minimum requirement,
- depending on the engagement circumstances.

#### *Relationship with Other AUASB Standards*

12. Assurance engagements other than audits or reviews of historical financial information are conducted in accordance with ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Assurance engagements that are reviews of historical financial information are conducted in accordance with ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*. Both ASRE 2405 and ASAE 3000 include requirements in relation to such topics as engagement acceptance, planning, performance, evidence, and documentation that apply to all assurance engagements, including those conducted in accordance with this ASAE. This ASAE deals with specific considerations in the application of ASRE 2405 and/or ASAE 3000 to assurance engagements relating to reporting on financial information related to corporate fundraisings and/or reporting on prospective financial information for other purposes. *The Framework for Assurance Engagements*, which defines and describes the elements and objectives of an assurance engagement, provides context for understanding this ASAE, ASRE 2405 and ASAE 3000.
13. This ASAE does not override the requirements of ASRE 2405 or ASAE 3000 which may apply in the engagement circumstances. It does not purport to deal with all engagement circumstances.

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<sup>1</sup> See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 13(k) for further guidance on the principle of “professional judgement”.

<sup>2</sup> See *Framework for Assurance Engagements*, paragraph 53, and ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, paragraphs 61-63 for further information.

## **Objectives**

14. The objectives of the assurance practitioner are:
- (a) to obtain the required level(s) of assurance on elements of the financial information thereby enabling the assurance practitioner to express a conclusion conveying that level(s) of assurance;
  - (b) to report in accordance with the assurance practitioner's findings; and
  - (c) to communicate, as required by this ASAE, in accordance with the assurance practitioner's findings.

## **Definitions**

15. For the purposes of this Standard on Assurance Engagements, the following terms have the meanings attributed below:
- (a) Assumptions mean expectations made by the responsible party as to future events and actions expected to take place as at the date the prospective financial information is prepared and exclude hypothetical assumptions, unless otherwise stated<sup>3</sup>.
  - (b) Assurance report means a written report prepared by an independent assurance practitioner that provides assurance on a single type of financial information (individual assurance report) or on multiple types of financial information (either a composite assurance report or separate assurance reports for each type of financial information). When prepared in connection with a fundraising it is often referred to as an "Independent Assurance Report" or "Investigating Accountant's Report".
  - (c) AUASB Standards means standards issued by the Auditing and Assurance Standards Board (AUASB) comprising:
    - (i) Australian Auditing Standards;
    - (ii) Standards on Review Engagements;
    - (iii) Standards on Assurance Engagements; and
    - (iv) Standards on Related Services.
  - (d) Base financial information means financial information that is used as the starting point for the application of pro forma adjustments<sup>4</sup> by the responsible party. Base financial information is ordinarily historical in nature, however, it can also be prospective (for example a profit forecast). It may or may not have been previously audited or reviewed. Base financial information may also be referred to as unadjusted or source financial information.
  - (e) Corporate fundraising ("fundraising") means any transaction involving shares, debentures, units or interests in a management investment scheme undertaken to raise debt or equity funds, or issue equity, and/or offer and/or respond to an offer of, cash and/or scrip consideration to effect a transaction through the issuance of a public or non-public document. It includes initial public offerings, fundraisings<sup>5</sup>, takeovers, schemes of arrangement or other corporate restructures.
  - (f) Different elements of prospective financial information means:

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<sup>3</sup> See paragraph 15(m) for a definition of "hypothetical assumptions".

<sup>4</sup> See paragraph 15(v) for a definition of "pro forma adjustments".

<sup>5</sup> See Section 700 of the *Corporations Act 2001*.

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- (i) the assumptions used in the preparation of the prospective financial information; (element 1)
  - (ii) the stated basis of preparation and the assumptions referred to in (i) above; (element 2) and
  - (iii) its reasonableness (element 3).
- (g) Document means a public document or non-public document related to a corporate fundraising or other document containing prospective financial information.
- (h) Engaging party means the body or person(s) that requested the services of the assurance practitioner for the assurance engagement. The engaging party is ordinarily the responsible party, as defined in paragraph (cc) below of this ASAE. References in this ASAE to “responsible party” are taken to include the engaging party unless otherwise stated.
- (i) Entity means the entity responsible for the preparation and issuance of the public document or other document.
- (j) Event(s) or transaction(s) means underlying event(s) or transaction(s) that is (are):
- (i) primarily the subject of the document; or
  - (ii) not the subject of the document but the effect(s) of which have been reflected in the financial information.
- (k) Financial information means information of a financial nature prepared by the responsible party in the form of:
- (i) base financial information;
  - (ii) historical financial information;
  - (iii) pro forma historical financial information;
  - (iv) prospective financial information; or
  - (v) a pro forma forecast.
- (l) Historical financial information means information expressed in financial terms in relation to a particular entity, which is derived primarily from that entity’s accounting system and relates to events occurring in past time periods or about conditions or circumstances at points in time in the past.<sup>6</sup>
- (m) Hypothetical assumptions<sup>7</sup> means assumptions made by the responsible party in preparing prospective financial information in the form of a projection about future events and management actions which may not necessarily be expected to take place or that may be expected to take place, and may not be based on reasonable grounds.<sup>8</sup>
- (n) Limited assurance engagement means an assurance engagement in which the assurance practitioner reduces the assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where the risk is greater than for a reasonable assurance engagement. The set of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement, but is planned to obtain a level of assurance that is, in the assurance practitioner’s professional judgement acceptable in the circumstances

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<sup>6</sup> See ASA 200, paragraph Aus 13.1, for guidance on determining the nature of historical financial information for an assurance engagement.

<sup>7</sup> See RG 170 *Prospective Financial Information*, issued by the Australian Securities and Investments commission (ASIC) (April 2011) for further guidance on hypothetical assumptions.

<sup>8</sup> See paragraph 15(a) for a definition of “assumptions”.

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of the assurance engagement. An example of a limited assurance engagement is a review.

- (o) Management means the person(s) with executive responsibility for the conduct of the operations or individual business units of the entity. For some entities, in some circumstances, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.
- (p) Materiality means in relation to information, that if certain information is omitted, misstated, or not disclosed, that information has the potential to affect the economic decisions of users of the document, or the discharge of accountability by management or those charged with governance of the entity (the responsible party).<sup>9</sup>
- (q) Material inconsistency means information within the document that materially contradicts the financial information that is the subject of the assurance report.<sup>10</sup>
- (r) Misstatement of fact means information that is incorrectly stated or presented in the document. A material misstatement of fact may undermine the credibility of financial information that is the subject of the assurance report.<sup>11</sup>
- (s) Multiple types of financial information mean financial information that involves more than one type.<sup>12</sup>
- (t) Non-IFRS financial information<sup>13</sup> is financial information that is presented other than in accordance with all relevant accounting standards.<sup>14</sup>
- (u) Non-public document means a document in relation to a fundraising or a document containing prospective financial information, which is not a public document. It is not prepared in accordance with the *Corporations Act 2001*.
- (v) Pro forma adjustments means adjustments selected by the responsible party in accordance with the stated basis of preparation to make to base financial information<sup>15</sup> (historical or prospective) to:
  - (i) illustrate the impact of a significant event or transaction (“event” or “transaction”) as if the event had occurred or the transaction had been undertaken at an earlier date than actually occurred, or as if it had not occurred at all; and/or
  - (ii) eliminate the effects of unusual or non-recurring event(s) or transaction(s) that are not part of the normal operations of the entity; and/or
  - (iii) exclude certain event(s) or transaction(s), or present transactions or balances on a different recognition and measurement basis from that required or permitted by Australian Accounting Standards; and/or
  - (iv) correct errors or uncertainties.
- (w) Pro forma financial information means base financial information adjusted for pro forma adjustments in accordance with the stated basis of preparation, resulting in non-IFRS financial information that is not prepared in accordance with Australian

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<sup>9</sup> See AASB 101 *Presentation of Financial Statements*, paragraph 7, issued by the Australian Accounting Standards Board for a definition of materiality, and ASA 320 *Materiality in Planning and Performing an Audit* for further guidance on the concept of materiality in the preparation of a financial report, and may also be helpful in considering materiality in assurance engagements.

<sup>10</sup> See ASA 720 *The Auditor’s Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report* for guidance on material inconsistencies in an audit engagement, which may be helpful in assurance engagements.

<sup>11</sup> See ASA 720 for guidance on the concept of misstatement of fact which may be helpful in assurance engagements.

<sup>12</sup> See paragraph 15(k) for the different types covered by this ASAE.

<sup>13</sup> See RG 230 *Disclosing non-IFRS financial information* (December 2011), issued by ASIC for a definition of, and discussion on, non-IFRS financial information (see RG 230.14), as well as further guidance on pro forma financial information included in transaction documents.

<sup>14</sup> Accounting Standards are ordinarily those issued by the Australian Accounting Standards Board.

<sup>15</sup> See paragraph 14(d) for a definition of “base financial information.”

Accounting Standards. It is subject to the assumptions inherent in the responsible party's stated basis of preparation.

- (x) Prospective financial information means financial information of a predictive character prepared based on assumptions made by the responsible party, in accordance with the stated basis of preparation. Prospective financial information may be either:
  - (i) a forecast which is prepared based on the responsible party's assumptions as to future events expected to take place on the dates, or in the period, described and the actions expected to be taken at the date the financial information is prepared. It is commonly referred to as a "directors' forecast"; or
  - (ii) a projection<sup>16</sup> which is prepared based on the responsible party's material hypothetical assumptions, or a mixture of assumptions and material hypothetical assumptions as to future events which are not necessarily expected to take place on the dates, or in the period, described and the actions not necessarily expected to be taken at the date the financial information is prepared (a "what-if" scenario).
- (y) Public document means a disclosure document, product disclosure statement or other documentation provided to shareholders, unit holders, or holders of a relevant interest in an entity (or which is provided to management of an entity) in relation to a scheme of arrangement under Part 5.1 of the *Corporations Act 2001*, or a takeover or compulsory acquisition under Chapter 6 of the *Corporations Act 2001*. Examples include:
  - (i) A prospectus prepared by an entity that is a corporation in accordance with relevant sections of the *Corporations Act 2001*.<sup>17</sup>
  - (ii) A Short-Form Prospectus; lodged with the Australian Securities and Investments Commission (ASIC), instead of including in the body of the prospectus the relevant information discussed in such materials.<sup>18</sup>
  - (iii) Scheme Booklets.
  - (iv) Target Statements.
  - (v) Bidder Statements.
  - (vi) Profile Statements; this is a brief statement that may be sent out with offers, with ASIC's approval, instead of a prospectus.<sup>19</sup>
  - (vii) Offer Information Statements; this is a document that may be used instead of a prospectus under certain criteria set by the *Corporations Act 2001*.<sup>20</sup>
  - (viii) Product Disclosure Statements (PDS) used where the entity is a trust or other type of managed investment scheme.
- (z) Reasonable assurance engagement means an assurance engagement where the assurance practitioner reduces the assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement as the basis for the assurance practitioner's conclusion.

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<sup>16</sup> See RG 170, which contains guidance that prospective financial information that includes a projection (that is, supported by material hypothetical assumptions) rather than reasonable grounds is likely to be misleading and therefore is not permitted to be included in a public document.

<sup>17</sup> See Sections 710, 711, and 713 of the *Corporations Act 2001*.

<sup>18</sup> See Section 712 of the *Corporations Act 2001*.

<sup>19</sup> See Sections 705 and 721 of the *Corporations Act 2001*.

<sup>20</sup> See Section 709 of the *Corporations Act 2001* for the criteria as to when an Offer Information Statement may be used instead of a prospectus.



- (aa) Reasonable grounds means, in relation to a statement made, that there must be a sufficient objective foundation for that statement.<sup>21</sup>
- (bb) Relevant Date means as applicable:
  - (i) the allotment date;
  - (ii) the effective date of the relevant proposed fundraising;
  - (iii) the implementation date of the relevant proposed merger transaction; or
  - (iv) in the case of a scheme of arrangement, the date of the shareholders or unit-holders meeting to vote on the scheme.
- (cc) Responsible party means those charged with governance of the entity (ordinarily the Board of Directors), who are also responsible for the preparation and issuance of the financial information included in the document. It may also mean the management of the entity in circumstances where the assurance practitioner has been requested to provide assurance to those charged with governance in relation to financial information prepared by management. Alternatively it may also mean the party responsible for the preparation of the financial information. The responsible party may be different from the party that is the engaging party.
- (dd) Stated basis of preparation means the basis on which the responsible party has chosen to prepare the financial information that is acceptable in view of the nature and objective of the document, or as required by applicable law or regulation. A stated basis of preparation may include:
  - (i) the recognition and measurement principles contained in the Australian Accounting Standards (but not all the presentation and disclosure requirements), and the entity's adopted accounting policies;
  - (ii) recognition and measurement principles contained in the Australian Accounting Standards adjusted by pro forma adjustments, selected for the purpose for which the pro forma financial information (i.e. non-IFRS financial information) is presented;
  - (iii) recognition and measurement principles other than those contained in Australian Accounting Standards; or
  - (iv) a basis selected by the responsible party, in order to present the financial information for its intended purpose.
- (ee) Subsequent events mean events or facts that become known to the assurance practitioner after the date of the assurance report and prior to the relevant date.
- (ff) Takeover means the acquisition of control of listed or unlisted entities conducted in accordance with Chapter 6 of the *Corporations Act 2001*.

## **Requirements**

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

16. In respect of assurance engagements involving: (Ref: Para. A4)
- (a) reasonable or limited assurance on non-historical financial information, the assurance practitioner shall not represent compliance with this ASAE unless the assurance practitioner has complied with the requirements of both this ASAE and ASAE 3000; and/or

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<sup>21</sup> See RG 170 for further guidance on the concept of reasonable grounds in relation to public documents.

- (b) limited assurance on historical financial information, the assurance practitioner shall not represent compliance with this ASAE unless the assurance practitioner has complied with the requirements of both this ASAE and ASRE 2405.
17. The assurance practitioner shall have an understanding of the entire section(s) of this ASAE that is applicable in the engagement circumstances, including the application and other explanatory material, to understand its objectives and to apply its requirements properly.

### **Ethical Requirements**

18. The assurance practitioner shall comply with relevant ethical requirements relating to assurance engagements, including those pertaining to independence, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding and implement the firm's policies or procedures applicable to the individual engagement in accordance with ASA 102.<sup>22</sup>

### **Quality Management**

19. The assurance practitioner shall design, implement and operate a system of quality management in accordance with ASQM 1 or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1.<sup>23</sup>

### **Professional Scepticism**

20. The assurance practitioner shall plan and perform the engagement with professional scepticism, recognising that circumstances may exist that causes the financial information to be materially misstated.

### **Professional Judgement**

21. The assurance practitioner shall exercise professional judgement in planning and performing assurance engagements involving reporting on financial information.

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

22. Where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the assurance practitioner from complying with an essential procedure contained within a relevant requirement<sup>24</sup> in this ASAE, the assurance practitioner shall:
- (a) if possible, perform appropriate alternative procedures; and
  - (b) document in the working papers:
    - (i) the circumstances surrounding the inability to comply;
    - (ii) the reasons for the inability to comply; and
    - (iii) the justification of how the alternative procedures achieve the objective(s) of the requirement.
23. When the assurance practitioner is unable to perform the appropriate alternative procedures, the assurance practitioner shall consider the implications for the engagement. (Ref: Para. A5)

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<sup>22</sup> See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*, paragraph 5.

<sup>23</sup> See ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*.

<sup>24</sup> The concepts and discussion on which requirements are relevant in the circumstances of the audit engagement are contained in ASA 200 (paragraphs 22 and Aus 23.1), and may be helpful in determining how to ensure compliance with relevant requirements for assurance engagements related to a corporate fundraising.

## **Assurance Engagement Acceptance**

### *Preconditions for Acceptance* (Ref: Para. A6-A7)

24. In order to establish whether the preconditions for the engagement are present, the assurance practitioner shall obtain agreement from the responsible party that they:
- (a) understand and accept the terms of the assurance engagement, including the assurance practitioner's reporting responsibilities and the type(s) of assurance to be expressed;
  - (b) acknowledge and understand their responsibility for:
    - (i) the selection of the financial information, including whether it contains comparatives;
    - (ii) the preparation of the financial information in accordance with the stated basis of preparation;<sup>25,26</sup>
    - (iii) determining the applicable time period to be covered by the financial information;
    - (iv) the determination, selection, development, adequate disclosure and consistent application, of the stated basis of preparation in the document; the contents, preparation and issuance of the document<sup>27</sup> in which the financial information is contained;
    - (v) complying with the requirements of all applicable laws and regulations in the preparation of the financial information and the document;<sup>28</sup> and
    - (vi) such internal control as is determined to be necessary to enable the preparation of financial information that is free from material misstatement; and
  - (c) will provide the assurance practitioner with:
    - (i) unrestricted access to all requested information relevant to the financial information, where possible;
    - (ii) unrestricted access to those persons within the entity or the responsible party's experts, from whom the assurance practitioner determines it is necessary to obtain evidence, where possible;
    - (iii) a listing of all known uncorrected misstatements in the financial information, together with an acknowledgement that the responsible party is responsible for confirming that such misstatements are immaterial; and
    - (iv) written representations covering all matters requested by the assurance practitioner in relation to the engagement, within the timeframe required.

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<sup>25</sup> The concepts and discussions on the audit of historical financial information in the form of a complete set of financial statements that is prepared in accordance with a special purpose framework (that is, other than a general purpose framework) are contained in ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*. It may be helpful in assisting the assurance practitioner's special considerations in planning, performing and providing reasonable assurance on this type of historical financial information related to fundraisings. Alternatively, ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* contains the concepts and discussions on the review of historical financial information in the form of a complete set of financial statements. It may be helpful in assisting the assurance practitioner to plan, design, perform and provide limited assurance on historical financial information related to fundraisings.

<sup>26</sup> If the historical financial information is in the form of a single financial statement (s), or specific elements, accounts or items of a financial statement, then in addition to ASA 800, ASA 805 *Special Consideration—Audits of Single Financial Statements and Specific Elements, Accounts or Items of Financial Statements* may be helpful in assisting the assurance practitioner's special considerations in planning, performing and providing reasonable assurance on this type of historical financial information related to fundraisings.

<sup>27</sup> The *Corporations Act 2001* places specific requirements on directors in relation to the preparation of public documents, including presentation of financial information included therein.

<sup>28</sup> For example, See RG 228 *Prospectus: Effective Disclosure for retail investors* (November 2011), issued by ASIC for further guidance in respect of public documents.

Other Factors Affecting Engagement Acceptance

25. The assurance practitioner shall accept the engagement only when:
- (a) on the basis of preliminary knowledge of the assurance engagement circumstances, nothing has come to the assurance practitioner's attention to indicate that:
    - (i) the requirements of the relevant ethical principles described in ASA 102 will not be satisfied;
    - (ii) the stated basis of preparation chosen by the responsible party, and used in the preparation of the financial information, is likely to be misleading or deceptive;
    - (iii) there will be significant limitations on the scope of the assurance practitioner's work, including limited access to information or persons;
    - (iv) the responsible party intends to associate the assurance practitioner's name with the financial information in an inappropriate manner;
    - (v) the time period covered by the financial information is not acceptable;<sup>29</sup> or
    - (vi) the assurance engagement does not have a rational purpose;<sup>30</sup>
  - (b) the preconditions for the engagement, as stated in paragraph 24 of this ASAE are present;
  - (c) the type(s) of assurance requested by the responsible party is/(are) acceptable to the assurance practitioner;
  - (d) the assurance practitioner has the capabilities, competence and necessary qualifications to perform the engagement; and
  - (e) the assurance practitioner believes that the assurance report will be used for its intended purpose.
26. If the preconditions for the assurance engagement or other factors affecting engagement acceptance as set out in paragraphs 24 and 25 of this ASAE are not present, the assurance practitioner shall discuss the matter with the responsible party. If changes cannot be made to meet the preconditions, the assurance practitioner shall not accept the engagement as an assurance engagement, unless required by applicable law or regulation.

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

27. The agreed terms of the assurance engagement shall include, at a minimum: (Ref: Para. A8, A10)
- (a) the objective(s) and scope of the assurance engagement, including:
    - (i) the assurance practitioner's understanding of the purpose of the assurance engagement, the nature of, and time period covered by, the financial information, and the intended users of the assurance report;
    - (ii) confirmation that the assurance practitioner will conduct the engagement in accordance with this ASAE;
    - (iii) a statement that the assurance practitioner is not responsible for the preparation of the financial information;

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<sup>29</sup> See RG 170, for further guidance on what is an acceptable time period. It is ordinarily the case that the longer the period, the less likely it is that there are reasonable grounds for disclosure.

<sup>30</sup> See ASAE 3000, paragraph 17(b)(v), for further guidance.

- (iv) a statement that the assurance practitioner has no responsibility to perform an assessment of the appropriateness, or otherwise, of the selected stated basis of preparation of the financial information;
  - (v) a statement that the assurance practitioner will assess whether the financial information has been prepared in accordance with the stated basis of preparation;
  - (vi) in connection with a non-public document, a statement that the assurance practitioner will disclaim responsibility for any reliance on the assurance report by any party other than intended users, and for any use of the assurance report for any purpose other than that for which the assurance report was prepared;
  - (vii) if applicable, a statement that an audit is not being performed and that consequently, an audit opinion will not be expressed;
  - (viii) the type(s) and proposed wording of the assurance conclusion; and
  - (ix) a statement that the engagement cannot be relied upon to identify fraud, error(s), illegal act(s) or other irregularities that may exist within the entity;
- (b) the responsibilities of the assurance practitioner, including:
- (i) compliance with relevant ethical requirements, including independence;
  - (ii) performing assurance procedures on the financial information to obtain sufficient appropriate evidence for the type(s) of assurance required;
  - (iii) issuing a written assurance report and any other report agreed with the responsible party;<sup>31</sup> and
  - (iv) if applicable, and once satisfied it is appropriate to, providing consent in the required form to the responsible party for the inclusion of the assurance practitioner's name and assurance report in the document;
- (c) the responsibilities of the responsible party including those set out in paragraphs 24(b) and 24(c) of this ASAE; and
- (d) such other terms and conditions that the assurance practitioner determines are appropriate in the engagement circumstances. (Ref: Para. A9)

### **Changes in the Terms of the Engagement**

28. The assurance practitioner shall not agree to a change in the terms of the assurance engagement where there is no reasonable justification for doing so. If such a change is made, the assurance practitioner shall not disregard evidence that was obtained prior to the change. (Ref: Para. A11)
29. If the terms of the assurance engagement are to change, the assurance practitioner and the responsible party shall agree on, and record, the new terms of the assurance engagement in an engagement letter or other suitable form of written agreement. (Ref: Para. A12)
30. If the assurance practitioner is unable to agree to a change in the terms of the engagement, and is not permitted by the responsible party to continue the original engagement, the assurance practitioner shall:

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<sup>31</sup> See ASA 260 *Communication with Those Charged with Governance* for guidance on specific matters that may be communicated in an audit engagement that may be helpful in an assurance engagement involving reasonable assurance on historical financial information. Additionally, ASRE 2405 provides guidance on specific matters that may be communicated in a review engagement on historical financial information that may also be helpful in an assurance engagement that involves a review of financial information that is historical.

- (a) withdraw from the engagement, where possible under applicable law or regulation; and
- (b) determine whether there is any obligation, either contractual or otherwise, to report the circumstances to parties other than the responsible party.

### **Planning the Engagement**

31. The assurance practitioner shall plan the engagement so that it will be performed effectively.<sup>32</sup>  
(Ref: Para. A13)

#### *Planning Activities*

32. The assurance practitioner's planning procedures shall include, at a minimum:  
(Ref: Para. A14-A15)
- (a) establishing an overall engagement strategy that sets the scope, timing and direction of the engagement and that guides the development of the plan;
  - (b) ascertaining the responsible party's reporting objectives and key milestones of the engagement, to plan the timing of the engagement and the nature of the communications required;
  - (c) considering the factors that in the assurance practitioner's professional judgement are significant in directing the engagement team's efforts;
  - (d) considering the results of preliminary engagement activities, including engagement acceptance;
  - (e) if applicable, whether knowledge gained from other engagements performed by the engagement partner for the entity is relevant;
  - (f) considering the nature, timing and extent of planned risk assessment procedures;<sup>33</sup>
  - (g) assessing assurance engagement risk;<sup>34</sup> (Ref: Para. A16)
  - (h) determining if the entity's auditor will need to be contacted in respect of the audit opinion or review conclusion expressed on the latest financial report; and
  - (i) ascertaining the nature, timing and extent of resources necessary to perform the engagement, including considering the involvement of experts.

### **Materiality in Planning and Performing the Engagement**

#### *Determining Materiality when Planning the Engagement* (Ref: Para. A17-A18)

33. When establishing the overall engagement strategy, the assurance practitioner shall determine materiality for the financial information.<sup>35</sup>
34. The assurance practitioner shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further procedures.

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<sup>32</sup> See ASAE 3000, paragraphs 25-26 or ASRE 2405, paragraphs 25-27, as appropriate.

<sup>33</sup> See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, for guidance on planned risks assessment procedures which may be helpful.

<sup>34</sup> See ASA 200, paragraphs A32-A44 for guidance on the different elements of assurance engagement risk.

<sup>35</sup> See ASA 320 *Materiality in Planning and Performing an Audit* for guidance on planning materiality.

*Revision as the Engagement Progresses*

35. The assurance practitioner shall revise materiality in the event of becoming aware of information during the engagement that would have caused the assurance practitioner to have determined a different amount initially. (Ref: Para. A19)

**Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement**

*Obtaining an Understanding of the Entity and Its Environment*

36. The procedures to obtain an understanding of the entity and its environment, and to identify and assess risks of material misstatement in the financial information shall include the following:
- (a) Enquiries of those persons within the entity who, in the assurance practitioner's judgement, have information that is likely to assist in identifying and assessing risks of material misstatement.
  - (b) Analytical procedures. (Ref: Para. A20-A22)
  - (c) Observation and inspection. (Ref: Para. A23-A25)

**Overall Considerations**

37. If the assurance practitioner does not have a prior knowledge of the entity, the assurance practitioner shall obtain an understanding of: (Ref: Para. A26)
- (a) the type of document that the financial information will be included in;
  - (b) any applicable legal and regulatory requirements related to the financial information being included in that type of document;
  - (c) the nature of the entity, and any acquiree or divestee whose financial information is included in the financial information that is the subject of the assurance report including:
    - (i) its size, complexity, industry or industries in which it operates, its ownership, financial and regulatory structures, key strategies and products/services, competitors, regulatory environment, management structure, and available financial resources;
    - (ii) its operating history;
    - (iii) if applicable, any changes from prior financial reporting periods in the nature or extent of its operations, including whether there have been any mergers and/or acquisitions; and
    - (iv) its assets and liabilities;
  - (d) relevant industry, legal and regulatory and other external factors pertaining to the entity and any acquiree or divestee; and (Ref: Para. A27-A29)
  - (e) the stated basis of preparation of the financial information of the entity and of any acquiree or divestee and how these differ, if at all, from the accounting policies contained in the most recent financial report. (Ref: Para. A30)
38. Notwithstanding any prior knowledge, the assurance practitioner shall obtain an understanding of:

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- (a) the stated basis of preparation chosen by the responsible party for the financial information, if it is different from prior audited or reviewed historical financial information also included in the document, and if so, why;
- (b) the financial information including:
  - (i) its type,<sup>36</sup> source, and nature;<sup>37</sup>
  - (ii) the time period covered and reasons for its selection;
  - (iii) its intended use;
  - (iv) the extent to which it may be affected by the responsible party's judgements;
  - (v) obtaining an understanding of whether it contains comparative financial information, whether such financial information will be restated, and if so, why;
  - (vi) identifying relevant financial information available in the public domain;
  - (vii) identifying expected and plausible relationships within the financial information for use when performing analytical procedures;
  - (viii) whether the entity's financial report has already been audited or reviewed, and, if so, whether the audit or review was conducted in accordance with Australian Auditing Standards; and what type of audit opinion or review conclusion was expressed in the auditor's report;
  - (ix) if any part of the financial information has been audited or reviewed;
  - (x) whether it has been prepared on a consistent basis with that of any prior period audited or reviewed historical financial information included in the document. For example, the audited or reviewed comparatives may have been restated by the responsible party to ensure consistency of basis of preparation;<sup>38</sup> and
  - (xi) whether adjustments have been made that were previously considered immaterial in the prior period audit or review of the financial report;
- (c) the event(s) and transaction(s) that may have a significant impact on the preparation of the financial information;
- (d) the nature and type of other information to be included in the document, if available, sufficient to enable the assessment of whether it is consistent with the financial information;
- (e) the requirements of any applicable law or regulation that may impact the financial information;<sup>39</sup>
- (f) an understanding of any recent key changes in the entity's business activities, and how they affect the financial information;
- (g) an understanding of whether experts are required, or whether reliance will be required to be placed on their work;

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<sup>36</sup> For example, historical financial information, pro forma historical financial information, prospective financial information, or pro forma forecast.

<sup>37</sup> For example, its relevance, completeness, reliability and understandability.

<sup>38</sup> See RG 230 and RG 228, for further guidance on the nature and type of comparatives that should be included in a public document.

<sup>39</sup> Prospective financial information included in a public document under the *Corporations Act 2001* is required to be based on reasonable grounds to be considered not misleading. See section 728(2) and section 769C of the *Corporations Act 2001*. See ASIC's RG 170 *Prospective Financial Information*, for further guidance on what constitutes "reasonable grounds", as well as some non-exhaustive examples of indicative factors that may suggest or demonstrate reasonable grounds.



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- (h) the expertise of the preparers of the financial information; and
  - (i) internal control over the process used to prepare the financial information.
39. The understanding required in paragraph 38 of this ASAE shall be: (Ref: Para. A31-A32)
- (a) sufficient to enable the assurance practitioner to identify and assess any risks that the financial information may not be prepared in accordance with the stated basis of preparation; and
  - (b) enable the assurance practitioner to plan and design assurance procedures whose nature, timing and extent are responsive to assessed risks of material misstatement and allow the assurance practitioner to obtain the required level of assurance.

*Other Procedures to Obtain an Understanding and to Identify and Assess Risks of Material Misstatement*

40. If the assurance practitioner has performed other engagements for the entity, the assurance practitioner shall consider whether information obtained from other engagements is relevant to identifying and assessing risks of material misstatement. (Ref: Para. A33)
41. The assurance practitioner shall make enquiries of the responsible party, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud or non-compliance with laws and regulations affecting the financial information.
42. The engagement partner and other key members of the engagement team, and any key assurance practitioner's external experts, shall discuss the susceptibility of the entity's financial information to material misstatement whether due to fraud or error, and the application of the stated basis of preparation to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to members of the engagement team, and to any assurance practitioner's external experts not involved in the discussion.

*Reliance on the work performed by others*

43. The assurance practitioner shall consider whether to use the work of any expert,<sup>40</sup> including the responsible party's expert<sup>41</sup> or other assurance practitioner, in respect of obtaining sufficient appropriate evidence in respect of a material area or item within the financial information, including:
- (a) evaluating whether any material adjustments made to, or assumptions included within, the financial information are in accordance with the stated basis of preparation;
  - (b) evaluating the suitability of the stated basis of preparation; and/or
  - (c) assessing the impact of any contractual requirements on the financial information.
44. In considering whether to use the work of an expert, the assurance practitioner shall take into account:
- (a) the purpose for which the expert's work is to be, or, was, performed;
  - (b) the risks of material misstatement in the material area or item within the financial information to which the expert's work relates;
  - (c) the significance of the expert's work to the engagement;

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<sup>40</sup> The concepts and discussions on auditors using the work of other experts are contained in ASA 620 *Using the Work of an Auditor's Expert* and may be helpful in determining the extent of reliance by an assurance practitioner in an assurance engagement.

<sup>41</sup> The concepts and discussions on auditors assessing and placing reliance on the work performed by the entity's expert are contained in ASA 500 *Audit Evidence* and may be helpful in determining the extent of reliance by an assurance practitioner in an assurance engagement.

- (d) the assurance practitioner's assessment of the competence, capabilities and objectivity of the expert for the assurance practitioner's purposes;
  - (e) whether the assurance practitioner will be able to obtain access to the relevant working papers supporting the expert's report; and
  - (f) any prior knowledge of the expert's work.
45. If the assurance practitioner does intend to use the work of an expert, and consequently place reliance on the expert's work, for the purposes of the engagement, the assurance practitioner shall consider if a written acknowledgement by the expert or other assurance practitioner is required in order for the assurance practitioner to place such reliance, and if so, shall request such an acknowledgement.
46. If the expert does not provide a required written acknowledgement, the assurance practitioner shall consider what additional procedures, if any, are necessary, in order for the assurance practitioner to place reliance on the expert's work and conclude on the material area or item.  
(Ref: Para. A34(a))
47. If the expert does permit reliance to be placed on the work performed, the assurance practitioner shall evaluate the adequacy of the expert's work for the assurance practitioner's purposes by requesting access to the expert's working papers in order to:
- (a) evaluate the competence, capabilities, objectivity and independence of that expert;
  - (b) understand the scope, timing and type of work performed and outcomes;
  - (c) evaluate the appropriateness of the work performed as evidence for the purpose of the engagement;
  - (d) if applicable, understand the materiality levels set by the expert;
  - (e) if applicable, evaluate the expert's work methodology;
  - (f) if applicable, evaluate any audit or review differences identified by that expert;
  - (g) understand the type of audit opinion, review conclusion or report issued by that expert, and if applicable, the reasons for any modification;
  - (h) if applicable, ascertain whether the financial information has been prepared in accordance with the stated basis of preparation of the entity;
  - (i) determine, based on the results of the expert's work, whether additional assurance procedures will be required to be performed on the financial information in order to obtain sufficient appropriate evidence on which to base the required assurance conclusion; and
  - (j) if applicable, evaluate whether the other assurance practitioner's audit opinion or review conclusion was modified, and determine the implications for the engagement, including considering:
    - (i) the assurance practitioner's ability to undertake the engagement in accordance with the agreed terms; and
    - (ii) the potential impact, if any, on the assurance procedures to be performed.

#### Causes of Risks of Material Misstatement

48. When designing the procedures to obtain an understanding of the entity and its environment, and to identify and assess risks of material misstatement in the financial information, required in paragraph 36 of this ASAE, the assurance practitioner shall consider the following factors:

- (a) the likelihood of intentional misstatement in the financial information;
- (b) applicable law or regulatory requirements with respect to the preparation or presentation of the financial information;
- (c) the complexity and degree of subjectivity underlying calculations of information which are included in the financial information; and
- (d) how the responsible party makes all significant accounting estimates included in the financial information. (Ref: Para A35)

### **Overall Responses to Assessed Risks of Material Misstatement and Further Procedures**

#### *Assurance Procedures*

- 49. The assurance practitioner shall design and implement procedures to respond to, and address the assessed risks of material misstatement of the financial information. (Ref: Para. A36-A37)
- 50. The assurance practitioner shall use professional judgement to design and perform assurance procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, after:
  - (a) considering the likelihood of material misstatement in the financial information due to the particular characteristics of the financial information (that is, the inherent risk); (Ref: Para. A38-A39)
  - (b) assessing the need to obtain more persuasive evidence the higher the assurance practitioner's assessment of risk, such as external confirmation procedures; and/or (Ref: Para. A40-A41)
  - (c) if applicable, in a reasonable assurance engagement, and irrespective of the assessed risks of material misstatement, designing and performing tests of details or analytical procedures for each material account balance within the financial information.
- 51. In designing analytical procedures, the assurance practitioner shall determine the suitability of particular analytical procedures in relation to the financial information, taking into consideration the assessed risks of material misstatement of the financial information.
- 52. The assurance procedures shall include:
  - (a) if applicable, in respect of comparative information:
    - (i) comparing, for consistency, its stated basis of preparation against the entity's previously audited or reviewed historical financial information and if applicable, the most unaudited or unreviewed recent annual or interim financial report, and
      - ◆ evaluating the reasons for any differences; and
      - ◆ ensuring any restatements or adjustments made are appropriate;
    - (ii) reading the most recent audited or reviewed financial report in order to identify any matters that may affect the financial information;
  - (b) evaluating the reasonableness and appropriateness of the time period covered;
  - (c) enquiring of the responsible party in respect of the financial information:
    - (i) that it agrees to, and has been reconciled to underlying, supporting accounting records and documentation;

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- (ii) that it reflects any changes made to the stated basis of preparation from the most recent audited or reviewed financial statements;
- (iii) that it reflects the results of any identified misstatements from the prior year's financial statements;
- (iv) if any part of the financial information has been previously audited or reviewed, that it agrees to those audited or reviewed records; and/or
- (d) if applicable, performing external confirmation procedures in respect of material balances within the financial information;
- (e) assessing the appropriateness and suitability of any adjustments made by the responsible party as compared to the stated basis of preparation; performing the analytical procedures referred to in paragraph 51 of this ASAE on the financial information that the assurance practitioner considers are responsive to the assessed risks of material misstatement in the financial information: (Ref: Para. A42)
  - (i) evaluating the reliability of data from which the assurance practitioner's expectation of recorded amounts or ratios is developed, taking account of the source, comparability, and nature and relevance of information available;
  - (ii) developing an expectation with respect to recorded amounts or ratios in the financial information; and
  - (iii) if applicable, in a reasonable assurance engagement, the expectation developed in (ii) above must be sufficiently precise to identify possible material misstatements in the financial information; and/or
- (f) if applicable, in a reasonable assurance engagement, performing tests of details of material classes of transactions or account balances within the financial information;
- (g) if applicable, in respect of material accounting estimates included in the financial information: (Ref: Para. A43)
  - (i) confirming that the responsible party has appropriately applied the requirements of the stated basis of preparation relevant to material accounting estimates;
  - (ii) verifying the methodology chosen for making material accounting estimates:
    - ◆ has been applied consistently;
    - ◆ is appropriate when compared with the most recent audited/reviewed financial statements;
    - ◆ reflects any changes in methodology from prior periods; and
    - ◆ any changes in methodology are consistent with the stated basis of preparation;
  - (iii) considering whether other procedures are necessary in the circumstances including testing how the responsible party made the accounting estimate and the data on which it is based, including evaluating whether the method of quantification used is appropriate in the circumstances, and the assumptions used by the responsible party are reasonable;
- (h) in respect of the stated basis of preparation:
  - (i) understanding the process for its selection and approval;
  - (ii) understanding what accounting policies have been adopted;

- (iii) assessing its reasonableness and suitability for presenting the significant effects attributable to the event(s) or transaction(s) that is the subject of the document by understanding the nature, effect of, and reasons for any changes made to the stated basis of preparation as compared to that used in the most recent audited or reviewed financial statements;
- (iv) performing consistency checks in the application of the stated basis of preparation to the financial information;
- (v) assessing, based on the assurance practitioner's understanding, whether the stated basis of preparation is adequately described in the document; and
- (i) assessing whether the financial information is prepared in accordance with the stated basis of preparation;
- (j) enquiring of the responsible party and/or other parties<sup>42</sup> relating to whether there were:
  - (i) any changes in accounting policies, financial reporting practices and other reporting requirements that occurred during the time period under examination;
  - (ii) any corrections made to convert the financial information from an overseas jurisdiction's generally accepted accounting principles to the stated basis of preparation;
  - (iii) any unadjusted audit differences from the most recently audited or reviewed financial report that may be material for the purposes of the document;
  - (iv) any other provisions and other accounting estimates (such as asset revaluations) in the financial information; and
  - (v) any significant transactions with related parties (for example, assets purchased from an associated entity); and
- (k) considering the use of sampling. (Ref: Para. A44)

53. If the analytical procedures described in paragraph 52(e) of this ASAE identify fluctuations or relationships that are inconsistent with other relevant information, or differ significantly from expected amounts or ratios in the financial information, the assurance practitioner shall investigate such differences by:

- (a) enquiring of the responsible party;
- (b) evaluating the responses received; and/or
- (c) if applicable:
  - (i) determining whether other procedures are necessary in the circumstances; and (Ref: Para. A45)
  - (ii) obtaining additional evidence supporting the responsible party's responses to the enquiries made.

#### *Oral Representations*

54. If the assurance practitioner obtains oral representations from the responsible party in respect of matters supporting the financial information, the assurance practitioner shall:

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<sup>42</sup> The concepts and discussions on using the work of another auditor or internal auditor relevant to an audit engagement are contained in Auditing Standard ASA 600 *Special Considerations—Audits of a Group Financial Report (including the Work of Component Auditors)* and Auditing Standard ASA 610 *Using the Work of Internal Auditors*, which may be helpful in considering the work of other auditors for the purposes of an assurance engagement.

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- (a) evaluate their reasonableness and consistency with other evidence obtained, including other representations;
- (b) consider whether those making the representations can be expected to be well informed on the particular matters;
- (c) obtain appropriate corroborative evidence;<sup>43</sup> and
- (d) document the key aspects of the oral representation.

*Additional Procedures*

55. The assurance practitioner shall remain alert throughout the engagement for any event(s), condition(s), transaction(s), or error(s) that may:
- (a) cast doubt over the reliability, accuracy, or completeness of the information used by the assurance practitioner as evidence for the financial information; and/or
  - (b) require a reassessment, or revision, of the assurance practitioner's risk assessment; and/or
  - (c) require changes, or additions, to the planned assurance procedures in order to obtain sufficient appropriate evidence on which to base the assurance conclusion on the financial information. (Ref: Para. A46)
56. If the assurance practitioner becomes aware of an event(s), condition(s), transaction(s) or error(s) that causes the assurance practitioner to believe the financial information may be materially misstated, the assurance practitioner shall use professional judgement to design and perform additional procedures sufficient to enable the assurance practitioner to: (Ref: Para. A46)
- (a) conclude that the event(s), condition(s), transaction(s) or error(s) is (are) not likely to cause the financial information to be materially misstated; or
  - (b) determine that the event(s), condition(s), transaction(s) or error(s) cause(s) the financial information to be materially misstated.

*Communication and Correction of Misstatements*

57. Prior to evaluating the effect of any identified uncorrected misstatements the assurance practitioner shall reassess materiality determined in accordance with paragraphs 33 and 34 of this ASAE to confirm whether it remains appropriate in the context of the financial information.
58. The assurance practitioner shall determine whether the uncorrected misstatements are material, individually or in aggregate to the financial information, taking into consideration the size and nature of the misstatements, and the particular circumstances of their occurrence.
59. If the assurance practitioner believes that it is necessary to correct an identified misstatement for the financial information to be prepared in accordance with the stated basis of preparation, the assurance practitioner shall communicate this as soon as practicable to the responsible party to enable them to make the correction.
60. If, at the assurance practitioner's request, the responsible party has corrected an identified misstatement(s), the assurance practitioner shall perform additional procedures on the corrected misstatements to ensure they have been appropriately made and determine whether any material misstatements remain in the financial information.

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<sup>43</sup> The concepts and discussions on corroborative evidence relevant in investigating unusual fluctuations relevant to an audit engagement are contained in Auditing ASA 520 *Analytical Procedures*, and may be helpful in determining appropriate corroborative evidence in an assurance engagement.

61. If the responsible party refuses to correct some or all of the identified material misstatements in the financial information communicated by the assurance practitioner, the assurance practitioner:
- (a) shall obtain an understanding of the responsible party's reasons for not making the adjustments, and take this into account when forming the assurance practitioner's conclusion; and
  - (b) if the misstatement is material, the assurance practitioner shall express an adverse conclusion in accordance with paragraph 84(b) of this ASAE.

#### *Identified Misstatements*

62. The assurance practitioner shall accumulate misstatements identified during the engagement, other than those that are clearly trivial. (Ref: Para. A47-A48)
63. The assurance practitioner shall determine whether the overall engagement strategy and engagement plan needs to be revised if:
- (a) the nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements already identified, could be material; or
  - (b) the aggregate of identified misstatements approaches materiality levels set in accordance with paragraphs 33 and 34 of this ASAE.

#### **Evidence**

64. The assurance practitioner considers the adequacy, relevance and reliability of the information obtained as evidence and shall evaluate whether the assurance practitioner has obtained sufficient appropriate evidence<sup>44</sup> on which to express an assurance conclusion on the financial information. (Ref: Para. A49)

#### **Other Information Included in the Document**

65. When the document containing the financial information includes, or will include, other information, the assurance practitioner shall request from the responsible party a copy of that document and read its entire contents for the sole purpose of identifying any material inconsistencies with, or material misstatements of fact in relation to, the financial information. (Ref: Para. A50-A51)
66. If the assurance practitioner:
- (a) identifies a material inconsistency between the other information and the financial information; and/or
  - (b) becomes aware of a material misstatement of fact in that other information that is related to the financial information; and/or
  - (c) identifies a potentially misleading or deceptive statement in relation to the financial information;
- the assurance practitioner shall discuss this with the responsible party and:
- (d) if the responsible party agrees to a revision of the document the assurance practitioner shall request an updated copy of the document to ensure the revision has been made; or

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<sup>44</sup> The concepts and discussions on the sufficiency and appropriateness of evidence related to an audit engagement are contained in ASA 500 and may be helpful in evaluating the evidence for an assurance engagement.

- (e) if the responsible party refuses to make the revision, the assurance practitioner shall consider whether to:
  - (i) obtain expert advice on the appropriate course of action for the assurance practitioner; and/or
  - (ii) include in the assurance report an Other Matter paragraph<sup>45</sup> that describes the material inconsistency and/or misstatement of fact; and/or
  - (iii) withdraw consent for the responsible party to include the assurance report in the document; and/or
  - (iv) withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

### **Going Concern Considerations**

- 67. The assurance practitioner shall determine if an assessment of the entity's ability to continue as a going concern is relevant to the engagement.<sup>46</sup> (Ref: Para. A52)
- 68. If the assurance practitioner determines that an assessment of the entity's ability to continue as a going concern is relevant, the assurance practitioner shall perform such an assessment in order to obtain sufficient appropriate evidence regarding the appropriateness of the responsible party's use of the going concern assumption in the preparation of the financial information. (Ref: Para. A53)
- 69. If the assurance practitioner concludes the entity is not a going concern, or if there is a material uncertainty related to event(s) or condition(s) that individually, or collectively, may cast significant doubt on the entity's ability to continue as a going concern, the assurance practitioner shall consider the implications for the engagement and the assurance report. (Ref: Para. A54)

### **Consideration of Events Up to the Date of the Assurance Report** (Ref: Para. A55)

- 70. The assurance practitioner shall consider the impact of any event(s), transaction(s), correction(s), or error(s) of which the assurance practitioner becomes aware, that may materially affect the financial information, for the time period up to and including the date of the assurance report.<sup>47</sup>
- 71. The assurance practitioner shall discuss with the responsible party any such event(s), transaction(s), correction(s), or error(s) identified during the engagement in order to establish whether the effect on the financial information is material. If the effect is material, the assurance practitioner must perform additional procedures to confirm if the event(s), transaction(s), correction(s), or error(s) has (have) been corrected in the financial information and/or elsewhere in the document, if applicable. If the required correction(s) is(are) not made, the assurance practitioner shall consider what further action is appropriate in the engagement circumstances, including the implications for the assurance report.
- 72. The assurance practitioner shall revoke any consent to include the assurance report in the document that may have been previously provided, if the event(s), transaction(s), correction(s), or error(s) referred to in paragraph 70 of this ASAE is (are) not, in the assurance practitioner's professional judgement, appropriately addressed by the responsible party.

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<sup>45</sup> The concepts and discussion on the use of an Other Matter paragraph relevant to an audit engagement are contained in ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraphs 8-Aus 8.1, and may be helpful in determining its form, content and location in the assurance report applicable to an assurance engagement.

<sup>46</sup> The concepts and discussions on the going concern assessment relevant to an audit engagement are contained in ASA 570 *Going Concern*, and may be helpful in performing a going concern assessment in an assurance engagement. Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, paragraphs 25-26 contains relevant guidance on the going concern assessment.

<sup>47</sup> The concepts and discussions on the subsequent events relevant to a financial report audit engagement are contained in ASA 560 *Subsequent Events*, and may be helpful in assessing subsequent events in an assurance engagement.



**Consideration of Events Identified After the Date of the Assurance Report** (Ref: Para. A56-A57)

73. If the assurance practitioner becomes aware of event(s), transaction(s) or error(s) after the date of the issuance of the assurance report and before the relevant date that may have caused the assurance practitioner to amend the assurance report, had the assurance practitioner known of such matters at the date of that assurance report, the assurance practitioner shall:
- (a) discuss such event(s), correction(s), transaction(s) or error(s) with the responsible party; and
  - (b) consider what further action is appropriate in the engagement circumstances, including the implications for the assurance report.
74. The assurance practitioner shall revoke any consent to include the assurance report in the document that may have been previously provided, if the event(s), transaction(s), correction(s), or error(s) referred to in paragraph 73 of this ASAE are not, in the assurance practitioner's professional judgement, appropriately addressed by the responsible party.

**Written Representations**

75. The assurance practitioner shall request the responsible party to provide written representations at the completion of the engagement containing the following:  
(Ref: Para. A58-A61)
- (a) the preconditions described in paragraphs 24(b) and 24(c) of this ASAE;
  - (b) confirmation of the intended use of the financial information;
  - (c) confirmation that the going concern basis of preparation of the financial information is appropriate in the document;
  - (d) confirmation that there are no currently anticipated material changes to be made to the financial information between the date of the assurance report and the relevant date;
  - (e) confirmation that there has been no event(s), transactions, correction(s), error(s) or other matter(s) that has(have) arisen or been discovered subsequent to the preparation of the financial information that may impact, or require adjustment to, the financial information;
  - (f) confirmation that the assurance practitioner has been provided with a listing of all known uncorrected immaterial misstatements in the financial information, together with an acknowledgement that the responsible party is responsible for confirming that such misstatements are immaterial; and
  - (g) such other written representations that the assurance practitioner determines are appropriate in the engagement circumstances.
76. The date of the written representations shall be as near as practicable to, but not after, the date of the assurance report.
77. If the assurance practitioner has sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or if the representations received are inconsistent with other evidence, the assurance practitioner shall:
- (a) if practical, discuss the matter(s) with the responsible party;
  - (b) perform other procedures to attempt to resolve any inconsistencies;
  - (c) re-evaluate the integrity of the responsible party and evaluate the effect this may have on the reliability of representations (oral or written) and evidence in general; and

- (d) take appropriate action, including determining the possible effect on the assurance conclusion in the assurance report.
78. If the representations remain inconsistent with other evidence, the assurance practitioner shall reconsider the assessment of the competence, integrity, ethical values, or diligence of the responsible party or of its commitment to an enforcement of these, and shall determine the effect that this may have on the reliability of representations (oral or written) and evidence in general.
79. If the responsible party does not provide such written representations, or refuses to provide them, the assurance practitioner shall qualify or disclaim the conclusion in the assurance report, based on a limitation on the scope of the engagement.

### **Forming the Assurance Conclusion**

80. The assurance practitioner shall conclude as to whether the assurance practitioner has obtained the required level of assurance on the financial information, or elements of the financial information. That conclusion shall take into consideration the requirement in paragraph 64 of this ASAE.
81. In forming the conclusion the assurance practitioner shall consider:
- (a) the assurance practitioner's conclusion regarding the sufficiency and appropriateness of evidence obtained; and
  - (b) an evaluation of whether any uncorrected misstatements are material, either individually or in aggregate, to the financial information.

### *Unmodified Conclusion*

82. The assurance practitioner shall express an unmodified conclusion in the assurance report when the assurance practitioner, having obtained sufficient appropriate evidence, concludes that the financial information, or elements of the financial information, do not require material modification.

### *Emphasis of Matter Paragraph*

83. The assurance practitioner shall include an Emphasis of Matter paragraph in the assurance report when the assurance practitioner concludes it is necessary to draw users' attention to a matter disclosed in the financial information or accompanying explanatory notes on the basis that the matter is of such importance that it is fundamental to users' understanding of the financial information.<sup>48</sup> (Ref: Para. A62)

### *Modified Conclusion*

84. The assurance practitioner shall, subject to paragraph 85 of this ASAE, express a modified conclusion<sup>49</sup> in the assurance report if:
- (a) having obtained sufficient appropriate evidence, the assurance practitioner concludes that the effects, or possible effects, of a matter are material but not pervasive as to require an adverse conclusion or a disclaimer of conclusion, (qualified conclusion);
  - (b) having obtained sufficient appropriate evidence, the assurance practitioner concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial information (adverse conclusion); (Ref: Para. 61(b))

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<sup>48</sup> The concepts and discussions on the circumstances under which an emphasis of matter is included in an auditor's report are contained in ASA 706 and may be helpful in assisting the assurance practitioner decide if an Emphasis of Matter paragraph is appropriate for an assurance engagement.

<sup>49</sup> See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*, for further guidance.

- (c) the assurance practitioner is unable to obtain sufficient appropriate evidence on which to base an assurance conclusion, and concludes that the possible effects on the financial information of undetected misstatements, if any, could be both material and pervasive (disclaimer of conclusion); or (Ref: Para. A63, A79)
  - (d) the responsible party has not made the required disclosures, relating to material uncertainties in respect of going concern<sup>50</sup>, in the document (a qualified or adverse conclusion, as appropriate).
85. The assurance practitioner shall discuss with the responsible party any conclusion that is intended to be modified prior to preparing the assurance report. If the responsible party does not agree to make the necessary changes to appropriately resolve the matter, the assurance practitioner shall include the modified conclusion in the assurance report and consider any other implications for the engagement. (Ref: Para. A64)

### **Preparing the Assurance Report**

86. The assurance practitioner shall provide a written assurance report to the responsible party containing a clear expression of the assurance practitioner's conclusion on each type of financial information that is the subject of the engagement. (Ref: Para. A65, A67)
87. The assurance practitioner's conclusion shall clearly distinguish and separate each type of financial information from any other types of financial information within the assurance report. (Ref: Para. A66)
88. If the assurance practitioner is required by law or regulation to use a specific layout or wording in the assurance report, the assurance practitioner shall evaluate whether the assurance report is acceptable in the circumstances of the engagement, and if not, whether additional explanation in the assurance practitioner's report can mitigate possible misunderstanding. (Ref: Para. A67)

### **Consent to the Inclusion of the Assurance Report in a Public Document** (Ref: Para. A69)

89. The assurance practitioner shall consider applicable law or regulation when the assurance practitioner has been requested to provide consent in writing to the responsible party for the inclusion of the assurance report in the document.
90. Where the assurance practitioner considers it inappropriate for the assurance report to be included in the document, consent shall either not be provided, or be revoked prior to the relevant date of the document's release.

### **Documentation**

91. The assurance practitioner shall prepare documentation on a timely basis that is sufficient to enable an experienced assurance practitioner, having no previous connection with the engagement, to understand: (Ref: Para. A70-A71)
- (a) the nature, timing and extent of the assurance procedures performed to comply with this ASAE and applicable legal and regulatory requirements;
  - (b) the results of the procedures performed, and the evidence obtained; and
  - (c) significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.

### **Quality Management**

92. The assurance practitioner shall include in the engagement documentation:

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<sup>50</sup> See ASA 570 for further guidance.

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- (a) issues identified with respect to compliance with relevant ethical requirements and how they were resolved;
- (b) conclusions on compliance with independence requirements that apply to the engagement, and any relevant discussions within the assurance practitioner's firm that support these conclusions;
- (c) conclusions reached regarding the acceptance and continuance of client relationships and engagements;
- (d) evidence of compliance with applicable systems of quality management requirements within the firm;<sup>51</sup> and
- (e) the nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

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<sup>51</sup> See ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*, for further guidance.

## **Historical Financial Information**

93. This section deals with the additional special consideration in the application of requirements in paragraphs 16 to 92 inclusive of this ASAE when the assurance practitioner is requested to provide assurance on historical financial information prepared by the responsible party in connection with a corporate fundraising. Paragraphs 96 to 104 inclusive of this ASAE deal with additional special considerations when the historical financial information includes pro forma adjustments, resulting in pro forma historical financial information.

## **Preparing the Assurance Report**

94. The assurance practitioner shall not report compliance with this ASAE in the assurance report unless it includes, at a minimum, each of the elements identified in paragraph 95 of this ASAE.

### *Basic Elements of the Assurance Report*

95. The assurance report shall include, at a minimum, the following elements:
- (a) a title that clearly indicates the report is an independent limited or reasonable assurance report;
  - (b) an addressee;
  - (c) a background section that identifies the purpose of the assurance report, and if applicable, the fact that it will be included in the document;
  - (d) a scope section that:
    - (i) identifies the entity (entities) whose historical financial information is the subject of the assurance report, and if applicable, the responsible party of the entity;
    - (ii) identifies the financial information being reported on, the time period covered; and if applicable;
    - (iii) cross reference to, or describes, the source of the financial information and the stated basis of preparation selected by the responsible party in the preparation of the historical financial information; and
    - (iv) whether the historical financial information has been previously audited or reviewed and by whom, and the type of conclusion expressed;
  - (e) a description of the responsible party's responsibilities, including those set out in paragraph 27(c) of this ASAE;
  - (f) a description of the assurance practitioner's responsibilities, including:
    - (i) a statement that the engagement was performed in accordance with this ASAE;
    - (ii) if applicable, a summary of the assurance practitioner's procedures. In the case of a limited assurance engagement, this shall include a statement that the procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed; (Ref: Para. A72-A74)

- (iii) if applicable, a statement that the engagement did not include updating or re-issuing any previous audit or review report on financial information used as a source of the historical financial information;
- (g) the assurance practitioner's conclusion on the historical financial information:
  - (i) in a limited assurance engagement:
    - ◆ if the conclusion is unmodified, that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the historical financial information [as described in section [X] of the document] is not presented fairly, in all material respects, in accordance with the stated basis of preparation [as described in section [X] of the document or the scope section of this report]; or
    - ◆ if the conclusion is modified, a clear description of the reasons for the modification in a Basis for Modification qualification paragraph, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; and/or
    - ◆ where the assurance practitioner has identified material event(s), transaction(s), correction(s), or error(s) outside the entity's ordinary business that in the assurance practitioner's professional judgement require comment, or adjustment to, the historical financial information, but are not adequately addressed in the historical financial information, and/or the document, the assurance practitioner shall include a section covering such material event(s) or transaction(s) and if applicable, their potential impact to the extent it can be reasonably estimated; or
  - (ii) in a reasonable assurance engagement:
    - ◆ if the conclusion is unmodified, that the historical financial information is presented fairly, in all material respects, in accordance with the stated basis of preparation, [as described in section [X] of the document or the scope section of this report]; or
    - ◆ if the conclusion is modified, a clear description of the reasons for the modification in a Basis for Modification qualification paragraph, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; and/or
    - ◆ where the assurance practitioner has identified material event(s), transaction(s), correction(s), or error(s) outside the entity's ordinary business that in the assurance practitioner's professional judgement require comment, or adjustment to, the historical financial information, but are not adequately addressed in the historical financial information, and/or the document, the assurance practitioner shall include a section covering such material event(s) or transaction(s) and if applicable, their potential impact to the extent it can be reasonably estimated; and
- (h) if applicable, an Emphasis of Matter paragraph<sup>52</sup> when the assurance practitioner concludes it is necessary to draw users' attention to a matter disclosed in the historical financial information or accompanying explanatory notes on the basis that the matter

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<sup>52</sup> The concepts and discussions on the inclusion of an emphasis of matter paragraph relating to a financial report being prepared in accordance with a special purpose framework are contained in ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*. It may be helpful in assisting the assurance practitioner preparing an assurance report for an assurance engagement.

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is of such importance that it is fundamental to users' understanding of the historical financial information;

- (i) a statement that the historical financial information has been prepared for inclusion in the document, and that as a result, the historical financial information may not be suitable for use for another purpose;
- (j) a declaration of interest, or disclosure of interest, statement;
- (k) if applicable, a consent statement;
- (l) if applicable, a liability statement;
- (m) the assurance practitioner's signature;
- (n) the date of the assurance practitioner's report that shall be the date the assurance practitioner signs the report; and
- (o) the assurance practitioner's address.

## **Pro Forma Historical Financial Information**

96. This section deals with additional special considerations in the application of requirements in paragraphs 16 to 92 inclusive of this ASAE, when the assurance practitioner is required to provide assurance on pro forma financial information that is historical. When the assurance practitioner is requested to provide assurance on whether the pro forma financial information has been properly compiled, refer to ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information Included in a Prospectus or other Document*. (Ref: Para. A75-A76)

### **Engagement Acceptance**

#### *Preconditions for Acceptance*

97. In addition to the requirements in paragraph 24 of this ASAE, the assurance practitioner shall, prior to agreeing the terms of the engagement, obtain agreement from the responsible party that it accepts its responsibility for:
- (a) selecting the basis of preparation of the pro forma historical financial information;
  - (b) selecting the unadjusted historical financial information used as the source for the pro forma historical financial information;
  - (c) selecting and determining the pro forma adjustments;
  - (d) complying with the requirements of all applicable laws and regulation;<sup>53</sup> and
  - (e) preparing pro forma historical financial information in accordance with the stated basis of preparation.

#### *Other Factors Affecting Engagement Acceptance*

98. In addition to the requirements in paragraph 25 of this ASAE, the assurance practitioner shall only accept the engagement if the level of assurance to be provided on the pro forma historical financial information is not higher than the level of assurance expressed on the source of the unadjusted historical financial information, if it has been previously audited or reviewed.  
(Ref: Para. A77)

### **Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement**

#### *Obtaining an Understanding of the Entity and Its Environment*

99. In addition to the requirements in paragraphs 37 and 38 of this ASAE, the assurance practitioner shall obtain:
- (a) an understanding of the source of the unadjusted historical financial information used in the preparation of the pro forma historical financial information including:
    - (i) whether it has been previously audited or reviewed, and
    - (ii) if so, if the audit opinion/review conclusion was modified, considering the implications, if any, for the pro forma historical financial information including: (Ref: Para. A78-A79)
      - ◆ what appropriate action to take; and

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<sup>53</sup> For example, see RG 228 and RG 230, issued by ASIC, for further guidance.



- ◆ whether there is any effect on the assurance practitioner's ability to report in accordance with the terms of the engagement, including any effect on the assurance report; or
- (iii) planning the additional procedures required if the source of the unadjusted historical financial information has not been previously audited or reviewed; and
- (b) in respect of the pro forma adjustments:
  - (i) identifying all the pro forma adjustments;
  - (ii) understanding the event(s) or transaction(s) that the pro forma adjustments are intending to record; and
  - (iii) understanding the methodology used by the responsible party in formulating the pro forma adjustments, including the basis for, and calculations underlying, them.<sup>54</sup>

### **Overall Responses to Assessed Risks of Material Misstatement and Further Procedures**

#### *Assurance Procedures*

100. In addition to the requirements in paragraph 52 of this ASAE, the assurance procedures performed on the pro forma historical financial information shall include:
- (a) if the source of the unadjusted historical financial information has not been previously audited or reviewed, such procedures as are necessary, in the assurance practitioner's professional judgement, to obtain sufficient appropriate evidence in relation to that financial information on which to rely for engagement purposes; (Ref: Para. A80)
  - (b) if the source of the unadjusted historical financial information has been previously audited or reviewed, such procedures as are necessary, in the assurance practitioner's professional judgement, to obtain sufficient appropriate evidence on which to rely for engagement purposes; (Ref: Para. A81)
  - (c) understanding the stated basis of preparation for the pro forma historical financial information;
  - (d) understanding the basis for, and calculations underlying, the pro forma adjustments;
  - (e) determining whether the pro forma adjustments: (Ref: Para. A82-A83)
    - (i) have been selected and applied to the unadjusted historical financial information by the responsible party in accordance with the stated basis of preparation;
    - (ii) are supported by sufficient appropriate evidence, and are arithmetically correct,<sup>55</sup> and
  - (f) determining whether the resultant pro forma historical financial information reflects the results of applying the pro forma adjustments to the unadjusted financial information.
101. If the assurance practitioner is not satisfied that the pro forma adjustments:
- (a) have been made in accordance with the stated basis of preparation; and/or

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<sup>54</sup> See RG 230 for further guidance.

<sup>55</sup> See RG 170 and RG 228, for further guidance on the nature of pro forma adjustments.

- (b) lack sufficient appropriate evidence;
- the assurance practitioner shall discuss this with the responsible party, and:
- (c) if the responsible party agrees to make a revision of the pro forma adjustments, the assurance practitioner shall request an updated copy of the document in order to ensure the revision has been made; or
  - (d) if the responsible party refuses to make a required revision to the pro forma adjustments, the assurance practitioner shall consider whether to:
    - (i) obtain expert advice on the appropriate course of action of the assurance practitioner;
    - (ii) withdraw consent for the responsible party to include the assurance report in the document; and/or
    - (iii) withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

### **Written Representations**

102. In addition to the requirements in paragraph 75 of this ASAE, the assurance practitioner shall request the responsible party to include in the written representations an acknowledgement of their responsibility for the matters described in paragraph 97 of this ASAE.

### **Preparing the Assurance Report**

103. The assurance practitioner shall not report compliance with this ASAE in the assurance report unless it includes, at a minimum, each of the elements identified in paragraph 104 of this ASAE.

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

104. In addition to the requirements in paragraph 95 of this ASAE, the assurance report shall include, at a minimum, the following elements:
- (a) statements in the scope section that:
    - (i) identify the pro forma historical financial information being reported on, including the time period it covers;
    - (ii) identify whether there has been an audit or review conducted on the source from which the unadjusted historical financial information was prepared; and
    - (iii) cross reference to, or describe, the stated basis of preparation selected by the responsible party for the pro forma historical financial information;  
(Ref: Para. A84)
  - (b) if applicable, a statement that the firm of which the assurance practitioner is a member holds all applicable license(s) and/or other designation(s) required under the *Corporations Act 2001*;
  - (c) if applicable, a statement that the engagement did not include updating or re-issuing any previous audit or review report on the unadjusted historical financial information used in the preparation of the pro forma historical financial information;
  - (d) the assurance practitioner's conclusion on the pro forma historical financial information:
    - (i) in a limited assurance engagement:

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- ◆ with an unmodified conclusion, a statement that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the pro forma historical financial information is not presented fairly, in all material respects, in accordance with the stated basis of preparation being [insert details/cross reference]; or
  - ◆ with a modified conclusion, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; or
- (ii) in a reasonable assurance engagement:
- ◆ with an unmodified conclusion, a statement that the assurance practitioner believes that the pro forma historical financial information is presented fairly, in all material respects, in accordance with the stated basis of preparation being [insert details/cross reference]; or
  - ◆ with a modified conclusion, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; and
- (e) if applicable, a reference to the assurance practitioner's financial services guide.

## **Prospective Financial Information**

105. This section deals with additional special considerations in the application of requirements in paragraphs 16 to 92 inclusive of this ASAE, when the assurance practitioner is requested to provide assurance on prospective financial information prepared by the responsible party based on their assumptions (excluding material hypothetical assumptions). Paragraphs 119 to 127 inclusive of this ASAE deal with the additional special considerations when the prospective financial information includes only hypothetical assumptions, or a mixture of assumptions and material hypothetical assumptions, resulting in a projection that is for inclusion in a non-public document. Paragraphs 128 to 136 inclusive of this ASAE deal with the additional special considerations when the prospective financial information includes pro forma adjustments, resulting in a pro forma forecast.

## **Assurance Engagement Acceptance**

### *Preconditions for Acceptance*

106. In addition to the requirements in paragraph 24 of this ASAE, the assurance practitioner shall, prior to agreeing the terms of the engagement, obtain agreement from the responsible party that they:
- (a) understand and accept the type of assurance to be expressed on each of the three different elements of the prospective financial information; and (Ref: Para. A85-A86)
  - (b) acknowledge and understand their responsibility for the preparation of the prospective financial information:
    - (i) in accordance with the stated basis of preparation; and
    - (ii) based on assumptions selected by the responsible party that:<sup>56</sup>
      - ◆ provide reasonable grounds<sup>57</sup> for the preparation of the prospective financial information, if it is to be included in a public document; or
      - ◆ are clearly realistic for the preparation of the prospective financial information, if it is to be included in a non-public document;
      - ◆ are not misleading or deceptive, having regard to applicable law and regulation.<sup>58</sup>

### *Other Factors Affecting Engagement Acceptance*

107. In addition to the requirements in paragraph 25 of this ASAE, the assurance practitioner shall accept the engagement only when:
- (a) on the basis of preliminary knowledge of the assurance engagement circumstances, nothing has come to the assurance practitioner's attention to indicate that:
    - (i) if the prospective financial information is to be included in a public document, it has been prepared based on:
      - ◆ assumptions that do not have reasonable grounds; (Ref: Para. A87) and/or
      - ◆ material hypothetical assumptions; or

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<sup>56</sup> See ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, for further guidance on assessing the reasonableness of assumptions.

<sup>57</sup> See paragraph 14(aa) of this ASAE for the definition. What constitutes "reasonable grounds" for preparation depends on the specific circumstances of the assurance engagement, but ordinarily does not include material hypothetical assumptions. Where the prospective financial information is intended to be included in a public document, see RG 170 for further guidance.

<sup>58</sup> In relation to public documents, see section 728 or section 769C of the *Corporations Act 2001*, and RG 170.

- (ii) if the prospective financial information is to be included in a non-public document, it has been prepared based on assumptions that are clearly unrealistic;
- (iii) any historical financial information used as a source for the prospective financial information and that is material to such prospective financial information:
  - ◆ has not been previously audited or reviewed, and
  - ◆ is not planned to be reviewed as part of the engagement; (Ref: Para. A88)
- (b) the prospective financial information will be inappropriate for its intended use;
- (c) the preconditions for the engagement, as stated in paragraph 106 of this ASAE, are present; and (Ref: Para. A89)
- (d) the type(s) of assurance required on different elements of the prospective financial information by the responsible party is acceptable to the assurance practitioner.

### **Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement**

#### *Obtaining an Understanding of the Entity and its Environment*

108. In addition to the requirements in paragraphs 37 and 38 of this ASAE, the assurance practitioner shall, at the minimum, obtain an understanding of:
- (a) whether the prospective financial information is a forecast, a projection, or a pro forma forecast;
  - (b) the stated basis of preparation chosen by the responsible party including:
    - (i) its relevance, completeness, reliability, and understandability; and
    - (ii) any differences between the basis and that used in the most recent audited or reviewed historical financial information;
  - (c) the accuracy of any forecast(s) prepared in prior time periods, and the reasons for any material variances;
  - (d) whether comparative information is to be included in the document, and whether it will be restated;
  - (e) relevant financial information available in the public domain; and
  - (f) key expectations and relationships in the prospective financial information for use when designing and performing analytical procedures.

### **Overall Responses to Assessed Risks of Material Misstatement and Further Procedures**

#### *Assurance Procedures*

##### Source of the Prospective Financial Information

109. In addition to the requirements in paragraph 52 of this ASAE, the assurance practitioner's procedures to determine whether the responsible party has extracted the source of the prospective financial information from an appropriate source shall include:
- (a) making relevant enquiries of the responsible party, other experts and relevant parties on the nature of the source of the prospective financial information;

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- (b) if the source of the prospective financial information includes material historical financial information which has been previously audited or reviewed:
- (i) reading the historical financial information to which the audit or review report relates to establish if its stated basis of preparation and time frame covered are acceptable; and
  - (ii) requesting, and obtaining, a copy of the audit or review report accompanying the historical financial information and, if obtained, reading it to assess whether:
    - ◆ the audit or review report was modified, and if so, why, and the impact, if any, on the engagement; and
    - ◆ there are any matters that may affect the prospective financial information; and/or
  - (iii) if applicable, in a reasonable assurance engagement:
    - ◆ contacting the other assurance practitioner to obtain access to the audit working papers supporting the audit or review on the historical financial information and evaluating the extent of evidence, if any, provided by the results of that prior audit or review;
    - ◆ designing and performing further procedures on the historical financial information in order to obtain further evidence of the adequacy, relevance and reliability of the historical financial information to be used as evidence, including:
      - ◇ agreeing or reconciling some or all the historical financial information with supporting records;
      - ◇ re-performing audit tests of material account balances;
      - ◇ evaluating the adequacy and reliability of the historical financial information as a source of the prospective financial information; and
    - ◆ comparing the source with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim historical financial information, and discussing any significant changes with the responsible party;
- (c) if the source of the prospective financial information includes material historical financial information which has not been previously audited or reviewed, or is a forecast, the assurance practitioner shall perform assurance procedures to be satisfied that the source is appropriate, including: (Ref: Para. A90)
- (i) ascertaining whether the assurance practitioner is able to access all required documentation describing and supporting the source;
  - (ii) enquiring of the responsible party about:
    - ◆ the process by which the source has been prepared and the reliability of its underlying accounting records;
    - ◆ whether all transactions for the time period have been recorded;
    - ◆ identifying the stated basis of preparation of the source;
    - ◆ whether the source has been prepared in accordance with the entity's accounting policies and stated basis of preparation;

- ◆ whether there have been any changes in accounting policies from that adopted in the most recent audited or reviewed financial statements and, if so, how such changes have been dealt with;
  - ◆ their assessment of the risk that the source may be materially misstated as a result of error or fraud;
  - ◆ how recently the entity's historical financial information was audited or reviewed;
  - ◆ whether there has been any changes in the entity's business activities and operations, and if so, their effect on the source; and
  - ◆ the extent to which statistical and mathematical modelling, computer-assisted techniques and other techniques have been used in the preparation of the prospective financial information, and the reliability of those techniques; and
- (iii) if the assurance practitioner has audited or reviewed the immediately preceding annual or interim historical financial information, considering the findings and whether these might indicate any issues with the preparation of the source from which the historical financial information has been extracted; and/or
- (iv) if applicable, in a reasonable assurance engagement:
- ◆ corroborating the information provided by the responsible party in response to the assurance practitioner's enquiries when the responses appear inconsistent with the assurance practitioner's understanding of the entity, the prospective financial information, or engagement circumstances;
  - ◆ agreeing or reconciling some or all the financial information with supporting records;
  - ◆ performing selected audit tests of material account balances within the financial information; and
  - ◆ comparing the source with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the responsible party;
- (d) evaluating the adequacy and reliability of the financial information as a source of the prospective financial information;
- (e) evaluating the accuracy of any prospective financial information prepared in prior time periods as compared to actual financial results, and the reasons provided for significant variances; and
- (f) ensuring the source of the prospective financial information reflects any changes made to the stated basis of preparation from the prior audited or reviewed period, and if so:
- (i) determining the nature of, and reasons for, the changes and their effect on the prospective financial information;
  - (ii) evaluating whether there have been any reclassifications or adjustments made by the responsible party to reflect unusual or non-recurring items, or to correct known errors and uncertainties; and

- (iii) evaluating any differences between the basis of preparation of the prospective financial information and that of other financial information included in the document.

110. If the assurance practitioner is not able to perform the procedures in paragraph 109 of this ASAE in order to assess whether the source of the prospective financial information is appropriate, the assurance practitioner shall consider the implications for the engagement and the assurance report.

#### Assumptions

111. The assurance practitioner's assurance procedures on the assumptions shall include:

- (a) reading the most recent audited or reviewed financial report, and, if appropriate, the most recently prepared annual or interim financial information, to enable the assessment of the assumptions used in the preparation of the prospective financial information;
- (b) enquiry of the responsible party of:
  - (i) the source, degree of reliability, uncertainty, verifiability, and validity of the assumptions, including whether the assumptions are objectively reasonable;
  - (ii) the time period the assumptions cover;
  - (iii) the methodology used in their development and quantification, including the extent to which they are affected by the responsible party's judgement;
  - (iv) the likelihood of the assumptions actually occurring; (Ref: Para. A91)
  - (v) whether the assumptions have a wide range of possibilities, or their outcomes are particularly sensitive to fluctuations, and if so, the effect on the prospective financial information of such sensitivities; and/or
  - (vi) whether any hypothetical assumptions are included, and if so, their materiality to the prospective financial information;
- (c) evaluating whether all material assumptions required for the preparation of the prospective financial information have been identified;
- (d) determining whether the assumptions used in the preparation of the prospective financial information are consistent with the stated basis of preparation;
- (e) determining whether the assumptions are arithmetically correct;
- (f) obtaining appropriate evidence to support all material assumptions;
- (g) evaluating whether the assumptions are within the entity's capacity to achieve in light of the assurance practitioner's understanding of the prospective financial information;
- (h) performing, or reviewing the responsible party's sensitivity analysis to test the responsiveness, or otherwise, of the prospective financial information to material changes in key assumptions underlying that prospective financial information; and
- (i) considering the responsible party's reliance on the work of experts in relation to the assumptions.

112. If the responsible party's assumptions on which the prospective financial information has been prepared lack supporting evidence, and are determined by the assurance practitioner not to have reasonable grounds, the assurance practitioner shall consider such assumptions to be



hypothetical and shall determine the implications for the engagement and the assurance report, taking into account any applicable law or regulation.<sup>59</sup>

**Prospective Financial Information prepared in accordance with the Stated Basis of Preparation and Assumptions**

113. The assurance practitioner's assurance procedures to ascertain if the prospective financial information has been prepared in accordance with the stated basis of preparation and the assumptions shall include:
- (a) evaluating the chosen stated basis of preparation; (Ref: Para. A92)
  - (b) assessing whether the stated basis of preparation described in the financial information section of the document is consistent with the assurance practitioner's understanding;
  - (c) making clerical checks such as re-computations and reviewing internal consistency of assumptions including those with common variables (that is, the actions the responsible party intends to take are compatible with each other and there are no inconsistencies in the determination of the amounts that are based on common variables, such as interest rates);
  - (d) ensuring the prospective financial information reflects any changes made to the stated basis of preparation from the previously audited or reviewed financial report included in the document;
  - (e) considering the interrelationships of elements within the prospective financial information;
  - (f) agreeing or reconciling the assumptions included to the stated basis of preparation;
  - (g) obtaining through enquiry of the responsible party, an understanding of all material assumptions and considering whether any other procedures are necessary in the circumstances; and/or
  - (h) if applicable, in a reasonable assurance engagement:
    - (i) performing consistency checks in the application of the stated basis of preparation to the prospective financial information;
    - (ii) performing test checks of items within the prospective financial information to ensure they have been prepared in accordance with the assumptions; and
    - (iii) obtaining evidence to support an assessment of whether any uncorrected misstatements or adjustments are material, individually or in aggregate, to the prospective financial information.

**Prospective Financial Information Itself**

114. The assurance practitioner's assurance procedures on the prospective financial information itself shall include:
- (a) evaluating the length of time covered by the prospective financial information, taking into account that information ordinarily becomes more speculative and less verifiable as the length of the period covered increases,<sup>60</sup> and by:
    - (i) enquiring of the responsible party the reasons for the choice of time period;

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<sup>59</sup> See RG 170, for further guidance.

<sup>60</sup> For example, see ASIC's RG 170 for guidance regarding what timeframe ASIC considers is reasonable for the inclusion of prospective financial information.

- (ii) considering whether the time period is consistent with the entity's normal reporting period and operating cycle so as to make it comparable to any previously issued historical financial information; and
- (iii) considering whether any elapsed portion of the current time period is included in the prospective financial information;
- (b) evaluating the type of business conducted by the entity, the assumptions included in the prospective financial information, and consequently the assessed volatility of the overall prospective financial information;
- (c) assessing the accuracy of any prospective financial information prepared in prior time periods as compared to actual financial results and obtaining and assessing the responsible party's reasons for any significant variances; and
- (d) assessing whether the prospective financial information is prepared on a reasonable basis, based on evidence obtained throughout the engagement.

### **Written Representations**

115. In addition to the requirements in paragraph 75 of this ASAE, the assurance practitioner shall request the responsible party to include in written representations confirmation:
- (a) of the completeness of all material assumptions used in the preparation of the prospective financial information; and
  - (b) that the material assumptions remain appropriate, even if the underlying information has been accumulated over a period of time.

### **Forming the Assurance Conclusion**

#### *Unmodified Conclusion*

116. The assurance practitioner shall express an unmodified conclusion in the assurance report on each element of the prospective financial information when the assurance practitioner concludes:
- (a) with limited assurance on each of the different elements of the prospective financial information, that based on the procedures performed, nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that:
    - (i) the assumptions used in the preparation of the prospective financial information, as described in section [X] of the document, do not provide reasonable grounds for the preparation of the prospective financial information;
    - (ii) in all material respects, the prospective financial information:
      - ◆ is not prepared on the basis of the assumptions as described in section [X] of the document; and
      - ◆ is not presented fairly in accordance with the stated basis of preparation as described in section [X] of the document; and
    - (iii) the prospective financial information itself is unreasonable; or
  - (b) with a combination of limited or reasonable assurance on each of the different elements of the prospective financial information, that based on the procedures performed:
    - (i) nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the assumptions used in the preparation

- of the prospective financial information do not provide reasonable grounds for the prospective financial information;
- (ii) in all material respects, the prospective financial information:
    - ◆ is not prepared on the basis of the assumptions as described in section [X] of the document; and
    - ◆ is not presented fairly in accordance with the stated basis of preparation as described in section [X] of the document; and
  - (iii) nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the prospective financial information is itself unreasonable.

### **Preparing the Assurance Report**

117. The assurance practitioner shall not report compliance with this ASAE in the assurance report unless it includes, at a minimum, each of the elements identified in paragraph 118 of this ASAE.

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

118. The assurance report shall include, at a minimum, the following elements:

- (a) a title that clearly indicates the report is an independent assurance report;
- (b) an addressee;
- (c) a background section that identifies the purpose of the assurance report, and if applicable, the fact that it will be included in the document;
- (d) statements in the scope section that:
  - (i) identify the entity (entities) whose prospective financial information is the subject of the assurance report and if applicable, the responsible party;
  - (ii) identify the source of the prospective financial information being reported on, its purpose, the time period covered, and if applicable, a statement that the prospective financial information has been prepared for inclusion in the document, and that as a result, the prospective financial information may not be suitable for another purpose;
  - (iii) cross reference to, or describe the stated basis of preparation selected by the responsible party in the preparation of the prospective financial information; and
  - (iv) if applicable, states that the firm which the assurance practitioner is a member of holds all applicable license(s) and/or other designation(s) required under the *Corporations Act 2001*;
- (e) a description of the responsible party's responsibilities, including those set out in paragraph 27(c) of this ASAE;
- (f) a description of the assurance practitioner's responsibilities, including:
  - (i) a statement that the engagement was performed in accordance with this ASAE;
  - (ii) if applicable, a summary of the assurance practitioner's procedures. In a limited assurance engagement, this shall include a statement "that the procedures performed in a limited assurance engagement vary in nature from,

and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed"; (Ref: Para. A93-A95)

- (iii) if applicable, a statement that the engagement did not include updating or re-issuing any previous audit or review report on the financial information used as the source of the prospective financial information;
- (g) statements that:
  - (i) actual results are likely to be different from the prospective financial information since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation could be material;
  - (ii) disclaim the assurance practitioner's responsibility for the achievability of the results indicated by the prospective financial information; and
  - (iii) if applicable, clearly identify any hypothetical assumptions<sup>61</sup> in the prospective financial information and confirm that they have no significant impact upon the forecast outcome;
- (h) the assurance practitioner's assurance conclusion on the different elements of the prospective financial information:
  - (i) with limited assurance and an unmodified conclusion, that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe:
    - ◆ that the assumptions used in the preparation of the prospective financial information do not provide reasonable grounds for the preparation of the prospective financial information;
    - ◆ in all material respects, that the prospective financial information is not properly prepared on the basis of the assumptions as described in section [X] of the document, and is not presented fairly in accordance with the stated basis of preparation as described in section [X] of the document]; and
    - ◆ the prospective financial information itself is unreasonable; or
  - (ii) with limited assurance and a modified conclusion, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; or
  - (iii) with a combination of limited and reasonable assurance on each of the different elements of the prospective financial information:
    - ◆ limited assurance that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the assumptions do not provide reasonable grounds for the preparation of the prospective financial information;
    - ◆ reasonable assurance that in all material respects, the prospective financial information is prepared on the basis of the assumptions as described in section [X] of the document; and is presented fairly in accordance with the stated basis of preparation as described in section [X] of the document; and

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<sup>61</sup> See RG 170.

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- ◆ limited assurance that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe the prospective financial information itself is unreasonable; or
- (iv) with both reasonable or limited assurance on each of the different elements of the prospective financial information, and part of the conclusion is modified, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report;
- (i) if applicable, an Emphasis of Matter paragraph<sup>62</sup> when the assurance practitioner concludes it is necessary to draw users' attention to a matter disclosed in the prospective financial information or accompanying explanatory notes on the basis that the matter is of such importance that it is fundamental to users' understanding of the prospective financial information;
- (j) a statement that the prospective financial information has been prepared for inclusion in the document and that as a result, the prospective financial information may not be suitable for use for another purpose;
- (k) where the assurance practitioner has become aware of material event(s), transaction(s), correction(s), or error(s) that in the assurance practitioner's professional judgement require comment, or adjustment to, the prospective financial information, but that are not adequately addressed in the prospective financial information and/or offering document, the assurance practitioner shall include a section covering such material event(s), transaction(s), correction(s), or error(s) and if applicable, their potential impact to the extent it can be reasonably estimated;
- (l) a declaration of interest, or disclosure of interest, statement;
- (m) if applicable, a consent statement;
- (n) if applicable, a liability statement;
- (o) if applicable, a reference to the assurance practitioner's financial services guide;
- (p) the assurance practitioner's signature;
- (q) the date of the assurance practitioner's report that shall be the date the assurance practitioner signs the report; and
- (r) the assurance practitioner's address.

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<sup>62</sup> The concepts and discussions on the inclusion of an emphasis of matter paragraph relating to a financial report being prepared in accordance with a special purpose framework are contained in ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*. It may be helpful in assisting the assurance practitioner preparing an assurance report for an assurance engagement.

## **Projection**

119. This section deals with the additional special considerations in the application of requirements in paragraphs 16 to 92 inclusive of this ASAE, when the assurance practitioner is required to provide assurance on prospective financial information that includes only hypothetical assumptions, or a mixture of assumptions and material hypothetical assumptions, resulting in a projection. Such a projection is only for inclusion in a non-public document.<sup>63</sup>

## **Assurance Engagement Acceptance**

### *Preconditions for Acceptance*

120. In addition to the requirements in paragraph 106 of this ASAE, the assurance practitioner shall, prior to agreeing the terms of the engagement, obtain agreement from the responsible party that they:
- (a) understand and accept that the assurance practitioner will not express any assurance on any hypothetical assumptions included in the projection; (Ref: Para. A96)
  - (b) acknowledge and understand their responsibility for the preparation of the projection:
    - (i) for an intended use that is not for inclusion in a public document;
    - (ii) in selecting, determining and disclosing the assumptions and hypothetical assumptions underlying the projection and their stated basis of preparation;
    - (iii) based on hypothetical assumptions selected by the responsible party that are clearly realistic for the preparation of the projection;
    - (iv) that takes into consideration all material implications for the assumptions and hypothetical assumptions used; and
    - (v) that clearly identifies and differentiates any hypothetical assumptions from other assumptions used.

### *Other Factors Affecting Engagement Acceptance*

121. In addition to the requirements in paragraph 107 of this ASAE, the assurance practitioner shall accept the engagement only when:
- (a) on the basis of preliminary knowledge of the engagement circumstances:
    - (i) nothing has come to the assurance practitioner's attention to indicate that the projection is prepared based on material hypothetical assumptions that are clearly unrealistic and/or inconsistent with the stated purpose of the projection; and
    - (ii) the assurance practitioner considers that the intended users are able to understand that the stated basis of preparation for the projection includes hypothetical assumptions, and that these assumptions relate to future events and management actions that may not necessarily be expected to take place, or that may be expected to take place and may not be based on reasonable grounds; and
  - (b) the preconditions for the engagement, as stated in paragraph 120 of this ASAE, are present.

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<sup>63</sup> See RG 170 for further information.

**Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement**

*Obtaining an Understanding of the Entity and Its Environment*

122. In addition to the requirements in paragraph 36 and 37 of this ASAE, the assurance practitioner shall obtain an understanding of:
- (a) the assumptions used including:
    - (i) the use of, and materiality of, hypothetical assumptions within the projection;
    - (ii) understanding the basis for, and calculations underlying, all material assumptions and hypothetical assumptions used in preparing the projection;
  - (b) the stated basis of preparation chosen by the responsible party including:
    - (i) its relevance, completeness, reliability, and understandability; and
    - (ii) any differences between the basis and that used in the most recent audited or reviewed historical financial information;
  - (c) the accuracy of any projection(s) prepared in prior time periods, and the reasons for any material variances;
  - (d) whether comparative information is to be included in the document, and whether it will be restated;
  - (e) relevant financial information available in the public domain; and
  - (f) key expectations and relationships in the projection for use when designing and performing analytical procedures.

**Overall Responses to Assessed Risks of Material Misstatement and Further Procedures**

*Assurance Procedures*

Hypothetical Assumptions

123. In addition to the requirements in paragraphs 109 to 114 inclusive of this ASAE, the assurance procedures performed on assumptions that are hypothetical shall include: (Ref: Para. A97)
- (a) enquiry of the responsible party of:
    - (i) the source, degree of reliability, uncertainty, and validity of the assumptions including whether the assumptions are objectively reasonable;
    - (ii) the time period the hypothetical assumptions cover;
    - (iii) the methodology used in their development and quantification, including the extent to which they are affected by the responsible party's judgement;
    - (iv) the likelihood of the hypothetical assumptions actually occurring;
    - (v) whether the hypothetical assumptions have a wide range of possibilities, or their outcomes are particularly sensitive to fluctuations, and if so, the effect on the projection of such sensitivities; and
    - (vi) of the materiality of hypothetical assumptions to the projection;
  - (b) determining whether material hypothetical assumptions are:

- (i) arithmetically correct;
- (ii) consistent with the stated basis of preparation of the projection;
- (iii) consistent with the purpose of the projection;
- (c) evaluating whether all material hypothetical assumptions are within the entity's capacity to achieve in light of the assurance practitioner's understanding of the projection;
- (d) evaluating whether all significant implications of the hypothetical assumptions have been taken into consideration by the responsible party;
- (e) if applicable, considering the responsible party's reliance on the work of experts in relation to the projection, or the hypothetical assumptions underlying it; and
- (f) evaluating whether anything has come to the assurance practitioner's attention during the engagement that causes the assurance practitioner to believe that any of the material hypothetical assumptions are clearly unrealistic;
- (g) performing, or reviewing the responsible party's sensitivity analysis to test the responsiveness, or otherwise, of the projection to material changes in key hypothetical assumptions underlying that projection; and
- (h) considering whether anything has come to the assurance practitioner's attention that may result in the intended users of the projection being misled by the inclusion of hypothetical assumptions.

#### **Projection Itself**

124. The assurance practitioner's assurance procedures on the projection itself shall include evaluating whether the projection reflects all assumptions and hypothetical assumptions, consistent with the stated basis of preparation.

#### **Written Representations**

125. In addition to the requirements in paragraph 115 of this ASAE, the assurance practitioner shall request the responsible party to include in the written representations an acknowledgement of their responsibilities for the matters described in paragraph 120 of this ASAE.

#### **Preparing the Assurance Report**

126. The assurance practitioner shall not report compliance with this ASAE in the assurance report unless it includes, at a minimum, each of the elements identified in paragraph 127 of this ASAE.

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

127. In addition to the requirements in paragraph 118 of this ASAE, the assurance report shall include, at a minimum, the following elements:
- (a) statements in the scope section that:
    - (i) identify the projection being reported on, its purpose, the time period covered, and if applicable, a statement that the projection has been prepared for inclusion in the document, and that as a result, the projection may not be suitable for another purpose;
    - (ii) cross reference to, or describe the stated basis of preparation selected by the responsible party for the projection; (Ref: Para. A98)



- (b) the assurance practitioner's assurance conclusion on the different elements of a projection that includes both assumptions and hypothetical assumptions:
- (i) with limited assurance and an unmodified conclusion, that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe:
    - ◆ that the assumptions do not provide reasonable grounds for the preparation of the projection, giving the occurrence of hypothetical assumptions;
    - ◆ in all material respects, that the projection is not properly prepared on the basis of the assumptions and the hypothetical assumptions as described in section [X] of the document; and is not presented fairly in accordance with the stated basis of preparation as described in section [X] of the document; and
    - ◆ the projection itself is unreasonable; or
  - (ii) with limited assurance and a modified conclusion, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; or
  - (iii) with a combination of limited and reasonable assurance on each of the different elements of the projection:
    - ◆ limited assurance that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe the assumptions do not provide reasonable grounds for the preparation of the projection giving the occurrence of hypothetical assumptions;
    - ◆ reasonable assurance that in all material respects, the projection is prepared on the basis of the assumptions as described in section [X] of the document; and is presented fairly in accordance with the stated basis of preparation as described in section [X] of the document; and
    - ◆ limited assurance that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe the projection itself is unreasonable; or
    - ◆ with both reasonable and limited assurance on each of the different elements of the projection, and part of the conclusion is modified, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; or
- (c) the assurance practitioner's assurance conclusion on the different elements of a projection that includes only hypothetical assumptions:
- (i) with limited assurance and an unmodified conclusion, that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe:
    - ◆ in all material respects, that the projection is not properly prepared on the basis of the hypothetical assumptions as described in section [X] of the document; and is not presented fairly in accordance with the stated basis of preparation as described in section [X] of the document; and
    - ◆ the projection itself is unreasonable; or

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- (ii) with limited assurance and a modified conclusion, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; or
- (iii) with a combination of limited and reasonable assurance on each of the different elements of the projection:
  - ◆ reasonable assurance that in all material respects, the projection is prepared on the basis of the hypothetical assumptions as described in section [X] of the document; and is presented fairly in accordance with the stated basis of preparation as described in section [X] of the document; and
  - ◆ limited assurance that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe the projection itself is unreasonable; or
  - ◆ with both reasonable and limited assurance on each of the different elements of the projection, and part of the conclusion is modified, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report.

## **Pro Forma Forecast**

128. This section deals with the additional special considerations in the application of requirements in paragraphs 16 to 92 inclusive of this ASAE, when the assurance practitioner is required to provide assurance on prospective financial information in the form of a pro forma forecast.

### **Assurance Engagement Acceptance**

#### *Preconditions for Acceptance*

129. In addition to the requirements in paragraph 106 of this ASAE, the assurance practitioner shall obtain agreement from the responsible party that they acknowledge and understand their responsibility for:

- (a) selecting the basis of preparation of the pro forma forecast;
- (b) selecting the unadjusted forecast financial information used as the source of the pro forma forecast;
- (c) selecting and determining the pro forma adjustments; preparing the pro forma forecast in accordance with the stated basis of preparation.

#### *Other Factors Affecting Engagement Acceptance*

130. In addition to the requirements in paragraph 107 of this ASAE, the assurance practitioner shall only accept the engagement if the level of assurance to be provided on the pro forma forecast is not higher than the level of assurance expressed on the source of the unadjusted financial information, in circumstances where it has been previously audited or reviewed. (Ref: Para. A99)

## **Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement**

#### *Obtaining an Understanding of the Entity and Its Environment*

131. In addition to the requirements in paragraphs 37 and 38 of this ASAE, the assurance practitioner shall obtain:

- (a) an understanding of the source of the unadjusted financial information used in the preparation of the pro forma forecast including:
  - (i) whether it has been previously audited or reviewed; and
  - (ii) if the audit opinion/review conclusion was modified, considering the implications, if any for the pro forma forecast; including:
    - ◆ what appropriate action to take; (Ref: Para. A100-A101) and
    - ◆ whether there is any effect on the assurance practitioner's ability to report in accordance with the terms of the engagement, including any effect on the assurance report; or
  - (iii) planning the additional procedures required if the source of the unadjusted financial information has not been previously audited or reviewed;
- (b) an understanding of the stated basis of preparation for the pro forma forecast;
- (c) an understanding of the pro forma adjustments:
  - (i) identifying all the adjustments made that have been made and the event(s) or transaction(s) the effects of which they intend to record;

- (ii) an understanding of the event(s) or transaction(s) that the pro forma adjustments are intending to record; and
- (iii) understanding the methodology used by the responsible party in formulating the pro forma adjustments, including the basis for, and calculations underlying them;<sup>64</sup>
- (d) an understanding of any recent key changes in the entity's business activities, and how they affect the pro forma forecast;
- (e) an understanding of whether experts<sup>65</sup> are required to be used for the assurance engagement for:
  - (i) evaluating pro forma adjustments, including whether they were prepared in accordance with the stated basis of preparation;
  - (ii) evaluating the suitability of the stated basis of preparation; and
  - (iii) assessing the impact of any contractual requirements on the pro forma forecast.

### **Overall Responses to Assessed Risks of Material Misstatement and Further Procedures**

#### *Assurance Procedures*

132. In addition to the requirements in paragraphs 109 to 114 inclusive of this ASAE, the assurance procedures performed on the pro forma forecast shall include:
- (a) if the source of the unadjusted financial information has not been previously audited or reviewed, such procedures as are necessary, in the assurance practitioner's professional judgement, to obtain sufficient appropriate evidence in relation to that financial information on which to rely for engagement purposes; (Ref: Para. A102)
  - (b) if the source of the unadjusted historical financial information has been previously audited or reviewed, such procedures as are necessary, in the assurance practitioner's professional judgement, to obtain sufficient appropriate evidence on which to rely for engagement purposes; (Ref: Para. A103)
  - (c) determining whether the pro forma adjustments: (Ref: Para. A104-A105)
    - (i) are directly attributable to the event(s) or transaction(s) requiring the preparation of the pro forma forecast;
    - (ii) have been selected and applied by the responsible party on a basis consistent with the stated basis of preparation;
    - (iii) are supported by sufficient appropriate evidence, and are arithmetically correct;<sup>66</sup>
    - (iv) reflect the planned event(s) or transaction(s) in the time period in which they are expected to occur; and
  - (d) determining whether the resultant pro forma forecast reflects the results of applying the pro forma adjustments to the unadjusted financial information.
133. If the assurance practitioner is not satisfied that the pro forma adjustments:

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<sup>64</sup> See RG 230 for further guidance.

<sup>65</sup> The concepts and discussions on placing reliance on the work of another auditor relevant to an audit engagement are contained in ASA 620 which may be useful to assurance practitioners when determining the extent, if any, of such reliance in the conduct of an assurance engagement.

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

- (a) have been made in accordance with the stated basis of preparation, and/or
  - (b) lack sufficient appropriate evidence;
- the assurance practitioner shall discuss this with the responsible party, and:
- (c) if the responsible party agrees to make a revision of the pro forma adjustments, the assurance practitioner shall request an updated copy of the document in order to ensure the revision has been made; or
  - (d) if the responsible party refuses to make the required revision to the pro forma adjustments, the assurance practitioner shall consider whether to:
    - (i) obtain expert advice on the appropriate course of action of the assurance practitioner;
    - (ii) withdraw consent for the responsible party to include the assurance report in the document; and/or
    - (iii) withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

### **Written Representations**

134. In addition to the requirements in paragraph 115 of this ASAE, the assurance practitioner shall request the responsible party to include in the written representations an acknowledgement of their responsibilities for the matters described in paragraph 129 of this ASAE.

### **Preparing the Assurance Report**

135. The assurance practitioner shall not report compliance with this ASAE in the assurance report unless it includes, at a minimum, each of the elements identified in paragraph 136 of this ASAE.

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

136. In addition to the requirements in paragraph 118 of this ASAE, the assurance report shall include, at a minimum, the following elements:
- (a) statements in the scope section that:
    - (i) identify the pro forma forecast being reported on, including the time period covered, and if applicable, a statement that the pro forma forecast has been prepared for inclusion in the document, and that as a result, the pro forma forecast may not be suitable for another purposes;
    - (ii) if applicable, identify whether there has been an audit or review conducted on the source from which the unadjusted financial information was prepared;
    - (iii) cross reference to, or describe the stated basis of preparation selected by the responsible party for the pro forma forecast; (Ref: Para. A106)
  - (b) the assurance practitioner's assurance conclusion on the different elements of the pro forma forecast:
    - (i) with limited assurance and an unmodified conclusion, that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe:
      - ◆ that the assumptions do not provide reasonable grounds for the pro forma forecast;

- ◆ in all material respects, that the pro forma forecast is not properly prepared on the basis of the assumptions as described in section [X] of the document; and is not presented fairly in accordance with the stated basis of preparation as described in section [X] of the document; and
- ◆ the pro forma forecast itself is unreasonable; or
- (ii) with limited assurance and a modified conclusion, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report; or
- (iii) with a combination of limited and reasonable assurance on each of the different elements of the pro forma forecast:
  - ◆ limited assurance that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe the assumptions do not provide reasonable grounds for the preparation of the pro forma forecast;
  - ◆ reasonable assurance that in all material respects, the pro forma forecast is prepared on the basis of the assumptions as described in section [X] of the document; and is presented fairly in accordance with the stated basis of preparation as described in section [X] of the document; and
  - ◆ limited assurance that nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe the pro forma forecast itself is unreasonable; or
- (iv) with both reasonable and limited assurance on each of the different elements of the pro forma forecast, and part of the conclusion is modified, a clear description of the reasons for the modification, with the effects appropriately quantified, to the extent reasonably practical, and disclosed in the assurance report.

\* \* \*

## **Application and Other Explanatory Material**

### **Scope of this Standard on Assurance Engagements** (Ref: Para. 4)

- A1. The assurance practitioner may agree to provide non-assurance services in accordance with the agreed terms of an engagement<sup>67</sup> or may be a member of a firm that is to provide such non-assurance services. Non-assurance services are not within the scope of this ASAE. The assurance practitioner should consider relevant ethical requirements (including independence)<sup>68</sup>, and the requirements of applicable law, regulation and professional standards when considering whether they are able to agree to provide such non-assurance services. If non-assurance services are able to be provided, they may be included in a separate engagement letter from the assurance services, or combined into a single engagement letter.
- A2. Examples of non-assurance services include:
- (a) the preparation and issuance of a Materiality Advice Letter or similar document to an entity's due diligence committee related to the fundraising;
  - (b) participation in the entity's due diligence committee;<sup>69</sup>
  - (c) the preparation of taxation information which is to be disclosed in the document and is unrelated to the financial information that is the subject of the assurance engagement;
  - (d) agreed upon procedures engagements, where no assurance conclusion is expressed (for example, a report of factual findings in respect of subsets of financial information included in the public document or the document; or earnings per share calculations);<sup>70</sup>
  - (e) comfort letter engagements performed by an assurance practitioner who is also the appointed auditor of the entity;<sup>71</sup> and
  - (f) accounting services in respect of financial information that is not the subject of the assurance engagement.

### *Types of Assurance provided in the Engagement* (Ref: Para. 9)

- A3. Factors to consider include:
- (a) the actual type of information, including its source and extent;
  - (b) the nature and extent of documentation that is known to be available to support the financial information;
  - (c) whether all, or part, of the financial information has been previously audited or reviewed;
  - (d) the nature, purpose and intended users of the financial information; and
  - (e) the engagement circumstances.

### **Complying with Standards that are Relevant to the Engagement** (Ref: Para. 16)

- A4. ASAE 3000 and ASRE 2405 include requirements that apply to relevant assurance engagements. This ASAE includes additional requirements or application and other

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

<sup>68</sup> See for example APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board for the assurance practitioners' professional responsibilities in these circumstances.

<sup>69</sup> See APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* (March 2011, as amended), issued by the Accounting Professional and Ethical Standards Board for assurance practitioner's professional responsibilities in these circumstances.

<sup>70</sup> See ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

<sup>71</sup> See ASRS 4450 *Comfort Letter Engagements*.

explanatory material in relation to those topics, as applicable to assurance engagements related to corporate fundraisings or prospective financial information prepared for other purposes.

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

(Ref: Para. 23)

- A5. Implications for the engagement may include:
- (a) whether to continue to perform the engagement;
  - (b) issuing a modified conclusion in the assurance report;
  - (c) refusing to issue the assurance report; or
  - (d) withdrawing from the engagement, where it is possible under any applicable law or regulation.

The assurance practitioner should discuss the above implications with the responsible party.

**Assurance Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. 24)

- A6. The responsible party is ultimately responsible for the preparation and presentation of all information in the document. The responsible party may engage other experts (for example, tax advisors, business advisors, or legal counsel) who may prepare, assist with the preparation of, or provide independent advice on, the information included in the document, however the responsible party retains responsibility for such information. The only exception to this is in respect of the content of reports prepared by other parties/experts, which are included, by consent, in the document.
- A7. If the responsible party is not also the engaging party, the assurance practitioner ordinarily considers the effect this may have on their ability to access records, documentation and other information that may be needed by the assurance practitioner to complete the engagement.

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

- A8. If the responsible party does not agree to sign the engagement letter, the assurance practitioner needs to consider whether it is appropriate to accept the engagement. Such considerations should take into account that applicable law, regulation, or a pre-existing contract may already acknowledge the terms included in the engagement letter, or set out the responsible party's responsibility in sufficient detail, such that the engagement letter is not required. For example, under the *Corporations Act 2001*,<sup>72</sup> the directors of an entity are deemed responsible for the financial information included in a public document used in offering securities. In such circumstances, the assurance practitioner may, using professional judgement, agree to accept the engagement, without requiring the engagement letter be signed. (Ref: Para. 27)
- A9. Other terms and conditions that may be included in the agreed terms are: (Ref: Para. 27(d))
- (a) a description of assurance procedures to be performed, for example:
    - (i) analytical review procedures;
    - (ii) review and consideration of key working papers, accounting records and other documents prepared by the responsible party and other experts;
    - (iii) enquiry of, and discussion with, the responsible party and other experts related to the source and stated basis of preparation used for the historical financial information;

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<sup>72</sup> See Section 717 of the *Corporations Act 2001*, for an overview of the procedures for offering securities.



- (iv) the examination of, on a test basis, evidence supporting the financial information;
  - (v) consideration of events up to, and including the date of the assurance report;
  - (vi) consistency checks of the stated basis of preparation compared to the accounting policies disclosed in the most recent historical financial information also disclosed in the document;
- (b) important deadlines/timelines for the completion of the engagement. This may include deadlines such as the expected date of publication of the document and when the assurance practitioner's consent is required;
- (c) arrangements regarding the planning and performance of the engagement, including the composition of the engagement team (including any experts); and
- (d) arrangements for the assurance practitioner to:
- (i) attend meetings such as the due diligence committee meetings (if applicable under the terms of the engagement);<sup>73</sup>
  - (ii) receive draft and final versions of the document in a timely manner, when requested;
  - (iii) use the service(s) of the responsible party's experts and/or the assurance practitioner's experts;
  - (iv) communicate directly with the entity's external auditor and/or other professional advisers regarding matters relevant to the financial information; and
  - (v) provide consent to the inclusion of the assurance practitioner's assurance report in the document. If the document is a prospectus, prepared in accordance with the *Corporations Act 2001*,<sup>74</sup> the form of the consent must be consistent with how the prospectus is intended to be distributed. For example, entities intending to distribute the prospectus in both electronic and paper forms must also obtain the assurance practitioner's consent to the inclusion of the assurance report in both forms.<sup>75</sup>

A10. Appendix 1 provides an illustrative example engagement letter for an engagement.  
(Ref: Para. 27)

### **Changes in the Terms of the Engagement**

A11. Examples of when requests from the responsible party to change the terms of the engagement may be received include where there has been a change in circumstances affecting the need for the service, or a misunderstanding of the type or nature of the assurance services to be provided. The assurance practitioner considers the justification for the proposed change, implications for the conduct and reporting of the engagement, as well as any evidence that was obtained prior to the assurance practitioner agreeing to the change. Changes that may be unacceptable to the assurance practitioner include: (Ref: Para. 28)

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

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<sup>73</sup> See for example, APES 350, for further guidance.

<sup>74</sup> See Section 716 of the *Corporations Act 2001*.

<sup>75</sup> See ASIC RG 107 *Electronic Prospectuses*.

- (c) preventing access to all relevant documents or persons requested; and/or
- (d) not providing documents when requested, leading to time constraints that make the satisfactory completion of the engagement by the date required unachievable.

A12. It is important that all changes agreed to by the responsible party and the assurance practitioner be documented in writing to ensure no misunderstanding occurs between the parties of what has been agreed. (Ref: Para. 29)

### **Planning the Engagement**

A13. The assurance practitioner uses professional judgement to determine the extent of understanding that it is necessary to obtain of the financial information and other relevant engagement circumstances.<sup>76</sup> (Ref: Para. 31)

#### *Planning Activities*

A14. The type of planning activities the assurance practitioner performs depends on the level of understanding of the entity the assurance practitioner has. Such an understanding may have been obtained from prior audit or review engagements performed. This understanding would ordinarily include knowledge of the entity's management skills and resources, and information technology systems (including financial systems). This understanding would need to be updated to ensure it had not changed in the current time period. Note that in certain engagement circumstances, the assurance practitioner may not be able to obtain such an understanding. For example, in a takeover or merger fundraising transaction, the assurance practitioner may not be able to access an entity's financial information, other than that available in the public domain. Hence, the level of understanding will be necessarily more limited, as will the nature of the assurance conclusion. The entity's document is also unlikely to be drafted at the time of engagement planning, so the assurance practitioner's opportunity to gain an understanding of the other information to be included in the document at this stage is ordinarily very limited. (Ref: Para. 32)

A15. The assurance practitioner may decide to discuss elements of planning with the responsible party when determining the scope of the engagement or to facilitate the conduct and management of the engagement (for example, to coordinate some of the planned procedures with the work of the entity's personnel). Although these discussions often occur, the overall engagement strategy and the engagement plan remain the assurance practitioner's responsibility. When discussing matters included in the overall engagement plan, care is needed in order to not compromise the effectiveness of the engagement. For example, discussing the nature, timing and extent of all planned detailed procedures with the entity may compromise the effectiveness of the engagement by making the procedures too predictable. (Ref: Para. 32)

A16. Assurance engagement risk comprises inherent risk, control risk and detection risk and the assurance practitioner considers these risk components in terms of the assurance engagement circumstances; in particular the nature of the financial information and whether a reasonable or limited assurance conclusion is sought. These considerations are then reflected in the extent of the planned procedures to be performed and the evidence-gathering process. (Ref: Para. 32(g))

### **Materiality in Planning and Performing the Engagement**

#### *Determining Materiality when Planning the Engagement* (Ref: Para. 33-34)

A17. The concept of materiality ordinarily includes the principles that:

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<sup>76</sup> The concepts and discussions on complete set of financial statements relevant to an audit engagement are contained in ASA 200, paragraph Aus 13.1, and may be helpful in determining the components of a complete set of financial statements applicable to an assurance engagement.

- (a) misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the financial information;
- (b) judgements about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- (c) judgements about matters that are material to intended users of the financial information are based on a consideration of the common information needs of intended users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

A18. The assurance practitioner's determination of materiality<sup>77</sup> is a matter of professional judgement, and is affected by:

- (a) the assurance practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the assurance practitioner to assume that intended users:
  - (i) understand that the financial information is prepared and assured to levels of materiality, and have an understanding of any materiality concepts included in the stated basis of preparation;
  - (ii) understand that the quantification of any prospective financial information involves uncertainties; and
  - (iii) make reasonable decisions on the basis of the information in the financial information;
- (b) whether the stated basis of preparation includes references to materiality. This provides a frame of reference to the assurance practitioner in determining materiality for the engagement. If the stated basis of preparation does not include a discussion of the concept of materiality, the characteristics referred to above provide the assurance practitioner with such a frame of reference;
- (c) the engagement circumstances; and
- (d) both quantitative and qualitative factors.

It should be noted, however, that decisions regarding materiality are not affected by the level of assurance, that is, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement.

*Revision as the Engagement Progresses* (Ref: Para. 35)

A19. Materiality may need to be revised as a result of a change in circumstances during the engagement (for example, the disposal of a major part of the entity's business), new information, or a change in the assurance practitioner's understanding of the entity and its operations as a result of performing procedures. For example, it may become apparent during the engagement that accounting estimates used are likely to be substantially different from those included in the financial information used initially to determine materiality. If, during the engagement, the assurance practitioner concludes that a lower materiality for the financial information (and, if applicable, materiality level or levels for particular types of accounts or disclosures within it) is appropriate than that initially determined, it may be necessary to revise performance materiality, and consequently the nature, timing and extent of the further planned procedures.

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<sup>77</sup> See ASA 320 for helpful guidance on the concept of materiality. Additionally APES 350 provides further helpful guidance in respect of materiality with respect to capital raisings.

**Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement**

*Obtaining an Understanding of the Entity and Its Environment*

Analytical Procedures (Ref: Para. 36(b))

- A20. Analytical procedures performed to obtain an understanding of the entity and its environment and to identify and assess risks of material misstatement may identify aspects of the entity of which the assurance practitioner was unaware and may assist in assessing the risks of material misstatement in order to provide a basis for designing and implementing responses to the assessed risks.
- A21. Analytical procedures may help identify the existence of unusual events, and amounts, ratios, and trends that might indicate matters that have implications for the engagement. Unusual or unexpected relationships that are identified may assist the assurance practitioner in identifying risks of material misstatement.
- A22. However, when such analytical procedures use data aggregated at a high level (which may be the situation with analytical procedures performed to obtain an understanding of the entity and its environment and to identify and assess risks of material misstatement), the results of those analytical procedures only provide a broad initial indication about whether a material misstatement may exist. Accordingly, in such cases, consideration of other evidence that has been gathered when identifying the risks of material misstatement together with the results of such analytical procedures may assist the assurance practitioner in understanding and evaluating the results of the analytical procedures.

Observation and Inspection (Ref: Para. 36(c))

- A23. Observation consists of looking at a process or procedure being performed by others, for example, the assurance practitioner's observation of monitoring devices being calibrated by the entity's personnel, or of the performance of control activities. Observation provides evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed.
- A24. Inspection involves examining records, documents or reports, whether internal or external, in paper form, electronic form, or other media. Inspection of records, documents and reports provides evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production.
- A25. Observation and inspection may support enquiries of management and others, and may also provide information about the entity and its environment. Examples of such procedures include observation or inspection of the following:
- (a) The entity's operations.
  - (b) Relevant documents supporting the financial information.
  - (c) Reports prepared for management or those charged with governance.
  - (d) If the entity is relying on the fundraising to ensure its continued going concern in future time periods, the assurance practitioner may request from the entity a copy of the signed underwriting agreement to assist in the assurance practitioner's going concern assessment considerations. Such an agreement may be used as a potential mitigating factor.

Overall Considerations

- A26. The assurance practitioner uses professional judgement to determine the extent of the understanding required and of the nature, timing and extent of procedures required to identify and assess risks of material misstatement appropriate to the level of assurance required. The assurance practitioner's primary consideration is whether the understanding that has been obtained and the identification and assessment of risks are sufficient to meet the objective stated in this ASAE. The depth of the understanding that is required by the assurance practitioner is less than that possessed by management in managing the entity, and both the depth of the understanding and the nature, timing and extent of procedures to identify and assess risks of material misstatement are less for a limited assurance engagement than for a reasonable assurance engagement. (Ref: Para. 37)
- A27. Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments. Examples of matters the assurance practitioner may consider include: (Ref: Para. 37(d))
- (a) The market and competition, including demand, capacity, and price competition.
  - (b) Common business practices within the industry.
  - (c) Cyclical or seasonal activity.
  - (d) Product technology relating to the entity's products.
- A28. Relevant legal and regulatory factors encompass, among other matters, the applicable financial reporting framework in accordance with which the entity or, if applicable, the acquiree prepares its periodic financial information, and the legal and political environment. Examples of matters the assurance practitioner may consider include: (Ref: Para. 37(d))
- (a) Industry-specific accounting practices.
  - (b) Legal and regulatory framework for a regulated industry.
  - (c) Legislation and regulation that significantly affect the entity's or, if applicable, the acquiree's or divestee's operations, including direct supervisory activities.
  - (d) Taxation.
  - (e) Government policies currently affecting the conduct of the entity's or, if applicable, the acquiree's or divestee's business, such as monetary policies (including foreign exchange controls), fiscal policies, financial incentives (for example, government aid programs), and tariffs or trade restrictions policies.
  - (f) Environmental requirements affecting the entity's or acquiree's or divestee's industry and business.
- A29. Examples of other external factors affecting the entity and, if applicable, the acquiree or divestee that the assurance practitioner may consider include the general economic conditions, interest rates and availability of financing. (Ref: Para. 37(d))
- A30. The assurance practitioner ordinarily has no responsibility to perform an assessment of the appropriateness, or otherwise, of the chosen stated basis of preparation. The stated basis of preparation chosen by the responsible party is ordinarily represented by the recognition and measurement accounting principles contained in Australian Accounting Standards and the accounting policies adopted by the entity. The stated basis of preparation described in the document should include the extent to which the entity has been consistent with that basis selected by the responsible party. (Ref: Para. 37(e))

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The Use of Assertions (Ref: Para. 39(a))

- A31. Assertions are ordinarily used by the assurance practitioner in a reasonable assurance engagement, and may be used in a limited assurance engagement, to consider the different types of potential misstatements within the financial information that may occur.<sup>78</sup>
- A32. In representing that the financial information is in accordance with the stated basis of preparation, the responsible party implicitly or explicitly makes assertions regarding the quantification and presentation and disclosure of the financial information. Assertions made by the responsible party fall into the following categories and may take the following forms:
- (a) Assertions about the quantification of the financial information for the period subject to assurance:
    - (i) Occurrence—events or transactions that have been recorded have occurred and pertain to the entity.
    - (ii) Completeness—all events or transactions that should have been recorded (in accordance with the stated basis of preparation) have been recorded.
    - (iii) Accuracy—the amounts and other data related to the recorded event(s) or transaction(s) has (have) been recorded appropriately.
    - (iv) Cut-off—event(s) and transaction(s) has (have) been recorded in the correct reporting period.
    - (v) Classification—financial information classes (for example, assets, liabilities) have been recorded in the proper accounts.
  - (b) Assertions about presentation and disclosure of the financial information in the document:
    - (i) Occurrence and rights and obligations—disclosed financial information and other matters have occurred and pertain to the entity.
    - (ii) Completeness—all disclosures that should have been included in the financial information have been included.
    - (iii) Classification and understandability—financial information is appropriately presented and described, and disclosures are clearly expressed.
    - (iv) Accuracy and valuation—all event(s) or transaction(s) included in the financial information are in accordance with the stated basis of preparation and disclosed fairly and at appropriate amounts.
    - (v) Consistency—accounting policies are consistent with those applied in the prior period, or changes made are justified and have been properly applied and adequately disclosed; and comparative information, if any, is as reported in the prior period or has been appropriately restated.

Notwithstanding the presentation and disclosure assertions made by the responsible party, the assurance practitioner only designs assurance procedures related to the quantification of the financial information, as this ASAE does not require the assurance practitioner to provide assurance on the presentation and disclosure of the financial information in the document.

*Other Procedures to Obtain an Understanding and to Identify and Assess Risks of Material Misstatement* (Ref: Para. 40)

- A33. Obtaining an understanding, and identifying and assessing risks of material misstatement, is an iterative process. Procedures to obtain an understanding of the entity and its environment and

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<sup>78</sup> See ASA 315, paragraphs A110-A112, for helpful guidance on the use of the assertions.

to identify and assess risks of material misstatement by themselves do not provide sufficient appropriate evidence on which to base the assurance conclusion.

*Reliance on the work performed by others* (Ref: Para. 43-47)

- A34. The other assurance practitioner may not permit reliance on a previously issued audit or review report, due to the fact that the report was prepared and issued for a purpose other than the subject of the current engagement. In the absence of the assurance practitioner being able to place reliance, additional procedures are ordinarily performed with respect to the financial information, in order to obtain sufficient and appropriate evidence necessary for the engagement, including:<sup>79</sup>
- (a) Requesting to review the other assurance practitioner's working paper file supporting the issued audit or review report, and reading it, in order to ascertain the appropriateness of the audit approach taken. (Ref: Para. 46)
  - (b) Re-performing some, or all, audit procedures with respect to the financial information, including enquiry, observation, analytical procedures, and tests of details.
  - (c) Performing audit test checks of certain balances within the financial information.

Causes of Risks of Material Misstatement

- A35. Matters that the assurance practitioner may consider in obtaining an understanding of how the entity makes significant accounting estimates included in the financial information, and the data on which they are based include, for example: (Ref: Para. 48(d))
- (a) an understanding of the data on which the accounting estimates are based including its source, reliability, and whether it has been previously audited or reviewed;
  - (b) the method, including if applicable the model, used in making accounting estimates;
  - (c) relevant aspects of the control environment and information system;
  - (d) whether the responsible party has used an expert;
  - (e) the assumptions underlying accounting estimates;
  - (f) whether there has been, or ought to have been, a change from the prior period in the methods for making accounting estimates and, if so, why; and
  - (g) whether and, if so, how the entity's responsible party has assessed the effect of any uncertainty in their estimation on the financial information, including:
    - (i) whether and, if so, how the entity has considered alternative assumptions or outcomes by, for example, performing a sensitivity analysis to determine the effect of changes in the assumptions on an estimate;
    - (ii) scenarios; and
    - (iii) whether the entity monitors the outcome of accounting estimates made in the prior period, and whether it has appropriately responded to the outcome of that monitoring procedure.

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<sup>79</sup> The concepts and discussions on placing reliance on the work of another auditor relevant to an audit engagement are contained in ASA 620 and ASA 600 which may be useful to assurance practitioners when determining the extent, if any, of such reliance in the conduct of an assurance engagement.

## **Overall Responses to the Assessed Risks of Material Misstatement and Further Procedures**

### *Assurance Procedures* (Ref: Para. 49)

- A36. When designing and performing assurance procedures, the assurance practitioner considers the adequacy, relevance and reliability of the information obtained to be used as evidence.<sup>80</sup>
- A37. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the assurance practitioner will perform in a limited assurance engagement will vary in nature from, and are less in extent than for, a reasonable assurance engagement. The primary differences between the assurance practitioner's overall responses to address the assessed risks of material misstatement in the financial information and the further procedures performed in a reasonable assurance engagement as compared to a limited assurance engagement are as follows:
- (a) *The emphasis placed on the nature of various procedures:* The emphasis placed on the nature of various procedures as a source of evidence will likely differ, depending on the engagement circumstances.
  - (b) *The extent of further procedures:* The extent of further procedures performed in a limited assurance engagement is less than in a reasonable assurance engagement. This may involve:
    - (i) reducing the number of items to be examined, for example, reducing sample sizes for tests of details; or
    - (ii) performing fewer procedures (for example, performing only analytical procedures in circumstances when, in a reasonable assurance engagement, both analytical procedures and tests of detail would be performed).
  - (c) *The nature of analytical procedures:* In a reasonable assurance engagement, analytical procedures performed in response to assessed risks of material misstatement involve developing expectations of quantities or ratios related to the financial information that are sufficiently precise to identify material misstatements. In a limited assurance engagement, on the other hand, analytical procedures are often designed to support expectations regarding the direction of trends, relationships and ratios, rather than to identify misstatements with the level of precision expected in a reasonable assurance engagement. Further, when significant fluctuations, relationships or differences are identified, appropriate evidence in a limited assurance engagement may often be obtained by making enquiries of the entity and considering responses received in the light of known engagement circumstances, without obtaining additional evidence as is required by paragraph 53 in the case of a reasonable assurance engagement.

In addition, when undertaking analytical procedures in a limited assurance engagement the assurance practitioner may, for example:

- (i) Use data that is more highly aggregated.
- (ii) Use data that has not been subjected to separate procedures to test its reliability to the same extent as it would be for a reasonable assurance engagement.

### Overall Responses to the Assessed Risks (Ref: Para. 50(a))

- A38. Overall responses to address the assessed risks of material misstatement in the financial information level may include:
- (a) emphasising to the assurance team the need to maintain professional scepticism;

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<sup>80</sup> The concepts and discussions on obtaining evidence relevant to an audit engagement are contained in ASA 500, which may be useful to assurance practitioners when determining the extent, if any, of evidence required in the conduct of an assurance engagement.



- (b) assigning more experienced staff or those with special skills or using experts;
- (c) providing more supervision of engagement staff;
- (d) incorporating additional elements of unpredictability in the selection of further procedures to be performed; and
- (e) making general changes to the nature, timing, or extent of procedures, and modifying the nature of procedures to obtain more persuasive evidence.

A39. The nature, timing, and extent of assurance procedures to be carried out are influenced by various factors, including, but not limited to:

- (a) the assurance practitioner's assessment of risk and its impact on the sufficiency and appropriateness of evidence;
- (b) the stated basis of preparation chosen by the responsible party;
- (c) whether some of the financial information has already been audited or reviewed, and if so whether the audit or review was conducted in accordance with Australian Auditing Standards; and what type of audit opinion or review conclusion was expressed in the auditor's report;
- (d) whether the financial information included in the document is prepared on the same basis as that of the prior period audited or reviewed historical financial information, and if not, the reasons for the differences;
- (e) whether the source and time period covered by the financial information are appropriate, and consistent with the stated basis of preparation; and
- (f) whether there is a need to make corrections in the financial information previously considered immaterial in the prior period audit or review of the financial report.

Persuasiveness of Evidence (Ref: Para. 50(b))

A40. To obtain more persuasive evidence because of a higher assessment of risk of material misstatement, the assurance practitioner may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by obtaining corroborating evidence from a number of independent sources.

Confirmation Procedures (Ref: Para. 50(b))

A41. External confirmation procedures may provide relevant evidence about such information as terms of agreements, contracts, or transactions between the entity and other parties, related to the financial information that is the subject of the engagement.

Analytical Procedures Performed in Response to Assessed Risks of Material Misstatement.  
(Ref: Para. 52(e))

A42. Analytical procedures may be particularly effective when disaggregated data is readily available, or when the assurance practitioner has reason to consider the data to be used is reliable, such as when it is extracted from a well-controlled source. In some cases, data to be used may be captured by the financial reporting information system, or may be entered in another information system in parallel with the entry of related financial data and some common input controls applied.

A43. In some cases, it may be appropriate for the assurance practitioner to evaluate how the responsible party has considered alternative assumptions or outcomes in determining the accounting estimates, and why it has rejected them. (Ref: Para. 52(g))

*Sampling* (Ref: Para. 52(k))

A44. Sampling<sup>81</sup> involves:

- (a) Determining a sample size sufficient to reduce sampling risk to an acceptably low level. Because the acceptable level of assurance engagement risk is lower for a reasonable assurance engagement than for a limited assurance engagement, so too may be the level of sampling risk that is acceptable in the case of tests of details. Therefore, when sampling is used for tests of details in a reasonable assurance engagement, the sample size may be larger than when used in similar circumstances in a limited assurance engagement.
- (b) Selecting items for the sample in such a way that each sampling unit in the population has a chance of selection, and performing procedures, appropriate to the purpose, on each item selected. If the assurance practitioner is unable to apply the designed procedures, or suitable alternative procedures, to a selected item, that item is treated as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.
- (c) Investigating the nature and cause of deviations or misstatements identified, and evaluating their possible effect on the purpose of the procedure and on other areas of the engagement.
- (d) Evaluating:
  - (i) the results of the sample, including, for tests of details, projecting misstatements found in the sample to the population; and
  - (v) whether the use of sampling has provided an appropriate basis for conclusions about the population that has been tested.

*Examples of Other Procedures* (Ref: Para. 53(c)(i))

A45. Other procedures may include, for example:

- (a) reviewing key contracts relevant to the financial information;
- (b) reconciling key recorded accounts and balances to supporting documentation; and
- (c) re-performing key calculations such as accounting estimates and reconciling any differences noted.

*Additional Procedures* (Ref: Para. 55-56)

A46. Examples of additional procedures are making further enquiries of the responsible party, or requesting further supporting documentation to ascertain whether the financial information is materially misstated. If however, having performed additional procedures, the assurance practitioner is not able to obtain sufficient appropriate evidence to either conclude that the event(s), condition(s), transaction(s) or error(s) is (are) not likely to cause the financial information to be materially misstated or determine that it does cause the financial information to be materially misstated, a scope limitation exists and the assurance practitioner should consider the implications for the assurance engagement.

*Identified Misstatements* (Ref: Para. 62)

A47. The assurance practitioner may designate an amount below which misstatements<sup>82</sup> would be clearly trivial and would not need to be accumulated because the assurance practitioner

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<sup>81</sup> See ASA 530 *Audit Sampling*, which describes audit sampling techniques, and may be useful to assurance practitioners when performing an assurance engagement involving sampling.

<sup>82</sup> The concepts and discussions on evaluating misstatements in an audit engagement are contained in ASA 450 *Evaluation of Misstatements Identified during the Audit*; paragraph A2, which may be useful to assurance practitioners when evaluating misstatements in an assurance engagement.

expects that the accumulation of such amounts clearly would not have a material effect on the financial information. “Clearly trivial” is not another expression for “not material.” Event(s), condition(s), transaction(s) or error(s) that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality determined in accordance with this ASAE, and will be matters that are clearly inconsequential, whether taken individually or in the aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

- A48. The assurance practitioner may communicate such matters verbally or in writing, as soon as the event(s), condition(s), transaction(s) or error(s) is (are) identified, to enable the responsible party to investigate the matter(s). The responsible party is then able to advise the assurance practitioner of their findings, provide supporting evidence and their decision on whether the adjustment(s) will be made to the financial information. The assurance practitioner is then able to evaluate the evidence provided to consider if the responsible party’s decision on the adjustment(s) is acceptable to the assurance practitioner.

**Evidence** (Ref: Para. 64)

- A49. The quantity of evidence obtained by the assurance practitioner is a measure of the sufficiency of the evidence, whilst the quality of the evidence obtained is a measure of its appropriateness; that is, its relevance and its reliability.<sup>83</sup> The extent of evidence required depends on the type of assurance required in respect of the financial information.

**Other Information Included in the Document** (Ref: Para. 65)

- A50. The assurance practitioner’s reading of the other information does not infer any assurance on that information, as the assurance practitioner reads it only to establish if there are any material inconsistencies or misstatements which may impact the financial information. Further, the assurance practitioner performs the assessment as if the event(s) or transaction(s) giving rise to the fundraising or report on prospective financial information had occurred. Material inconsistencies in other information that come to the assurance practitioner’s attention may raise doubt about the conclusions drawn from evidence already obtained, and possibly, about the basis for the assurance practitioner’s conclusion in the assurance report.
- A51. The assurance practitioner ordinarily pays particular attention to the following disclosure areas within the document:
- (a) other financial information not subject to the assurance engagement including:
    - (i) summarised financial information, for example in tabular or graphical forms;
    - (ii) any disclosures related to other financial information that has been previously audited or reviewed; and
    - (iii) management discussion and analysis section discussing the other financial information;
  - (b) disclosures about the nature of the event(s) or transaction(s) giving rise to the preparation of the document, including:
    - (i) the purpose of the document;
    - (ii) if applicable, the nature and amount of the securities, their value and rights, as well as any minimum subscription and how the proceeds will be applied; and
    - (iii) if applicable, the risks associated with the fundraising;

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<sup>83</sup> The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500, and may be helpful in determining the evidence applicable to an assurance engagement.

- (c) qualitative and quantitative disclosures about the entity's plans and future outlooks, including:
  - (i) its long-term and short-term plans to address key challenges; and
  - (ii) change-related risks, opportunities and impacts;
- (d) key trends and factors related to the entity's industry or nature of operations that are likely to affect the entity's strategy or the timescale over which achievement of the strategy is planned; and
- (e) other relevant disclosures, including:
  - (i) explanations of how revenue would be generated, including summaries of relevant contracts;
  - (ii) nature and extent of related party disclosures; and
  - (iii) valuation of material assets.

### **Going Concern Considerations**

#### *Assessment*

- A52. The assurance practitioner considers the appropriateness of the going concern assumption of the entity when the nature of the assurance engagement means that such an assessment could have implications for the assurance report. Ordinarily the assessment of going concern is appropriate for assurance engagements relating to historical financial information. Ordinarily in an engagement to report on prospective financial information, the going concern assumption is not relevant to the assurance practitioner's conclusion as the nature of the information is subjective, prospective (based on anticipated event(s) or transaction(s) that have not occurred) and its preparation requires the exercise of considerable judgement by the responsible party. (Ref: Para. 67)
- A53. If the assurance practitioner considers that performing a going concern assessment<sup>84</sup> is relevant, the assurance practitioner ordinarily performs the assessment as if the event(s) or transaction(s) giving rise to the corporate fundraising or reporting on prospective financial information had occurred, and considers the entity's prepared future forecasts, future cash flow statements, the directors' working capital statements, and financial position and any other event(s) or condition(s) that are relevant to the assessment. For example, if the prospects for profitability are not supported by adequate positive future cash flows, then both the forecast financial performance statement and the ongoing viability of the entity are at risk. There may also be mitigating factors that in the assurance practitioner's professional judgement eliminate the going concern uncertainty. These mitigating factors may include: (Ref: Para. 68)
- (a) a review of recently prepared forecasts, cash flow statements, working capital statements or statements of financial performance;
  - (b) unequivocal financial support provided from another entity which has the capacity to provide support;
  - (c) a signed underwriting agreement being in place; and/or
  - (d) the underlying event(s) or transaction(s) giving rise to the document (for example, a capital raising) which will, if completed successfully, raise sufficient funds to result in the entity becoming a going concern.

Mitigating factors should be supported by appropriate written evidence. In such circumstances, the assurance practitioner needs to evaluate and document how the unequivocal

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<sup>84</sup> The concepts and discussions on performing a going concern assessment of an entity, relevant to an audit engagement are contained in Auditing ASA 570, and may be helpful in performing a going concern assessment in an assurance engagement.

financial support or proceeds from the fundraising issue will provide funding for future operations of the entity that will result in the entity becoming a going concern. Consideration should be given to any proposed underwriting of any capital raising, and the circumstances in which the proposed underwriting may not occur. The assurance practitioner should also consider requesting a written representation from the responsible party regarding the appropriateness of the going concern assumption.

*Going Concern Assumption Inappropriate* (Ref: Para. 69)

- A54. If the assurance practitioner does not consider the going concern assumption to be appropriate to the entity, the implications for the assurance report depend on whether the responsible party has modified the basis of preparation of the financial information from that of a going concern basis:
- (a) if the basis has not been modified, then the conclusion in the assurance report should be modified (adverse conclusion) on the basis of the going concern assumption being inappropriate to the historical financial information; or
  - (b) if the basis has been modified, and the assurance practitioner considers the basis to be appropriate, then the assurance practitioner may still include an Emphasis of Matter paragraph in the assurance report to draw attention to the disclosure of this alternate basis.

**Consideration of Events up to the Date of the Assurance Report** (Ref: Para. 70-72)

- A55. In considering the impact of an identified event(s), transaction(s), correction(s) or error(s), the assurance practitioner takes into account issues such as:
- (a) the potential for such event(s), condition(s), transaction(s) or error(s) to materially affect the financial information in the document in terms of requiring comment on, or correction to, the financial information;
  - (b) whether such event(s), condition(s), transaction(s) or error(s) are within the ordinary business of the entity; and
  - (c) whether such event(s), condition(s), transaction(s) or error(s) cause the financial information to be potentially misleading or deceptive.

**Consideration of Events Identified after the date of the Assurance Report** (Ref: Para. 73-74)

- A56. If there are event(s), condition(s), transaction(s) or error(s) omitted from the document, which come to the assurance practitioner's attention after:
- (a) the document has been lodged with the appropriate regulatory body, if it is a public document; or
  - (b) the document has been finalised and issued to its intended user(s) and before the relevant date, if it is not a public document;

the assurance practitioner considers the implications for the assurance report, as well as any reporting obligations the assurance practitioner may have to inform the entity issuing the document.

- A57. If event(s), condition(s), transaction(s) or error(s) with a potentially material impact on the financial information come to the assurance practitioner's attention prior to the relevant date, the assurance practitioner discusses the omissions with the responsible party. If the responsible party refuses to correct such omissions, the assurance practitioner ordinarily withdraws consent for the entity to include the assurance report in the document, and evaluates if there are any applicable laws, regulations, agreements or other professional responsibilities that impose particular reporting obligations on the assurance practitioner (for example, reporting such matters to the entity's due diligence committee).

**Written Representations** (Ref: Para. 75-79)

- A58. The assurance practitioner requests and obtains written representations from the responsible party at the completion of the assurance engagement.<sup>85</sup> If the responsible party is those charged with governance in the entity, the representation letter should be provided by them and not management. The assurance practitioner ordinarily provides the responsible party with a specific list of representations required. Such matters may already be contained in documentation reviewed by the assurance practitioner, including minutes of meetings, written acceptance of the assurance engagement terms, and due diligence committee reports. Therefore the assurance practitioner only needs to request the inclusion of such matters in the written representations if the assurance practitioner considers it appropriate in the assurance engagement circumstances.
- A59. Appendix 2 provides an illustrative representation letter.
- A60. Oral or written representations made by the responsible party cannot replace other evidence the assurance practitioner could reasonably expect to be available. For example, relevant minutes of meetings of the Board of Directors, or a published statement by the Board of Directors acknowledging responsibility for the preparation and presentation of the financial information, may be considered sufficient appropriate evidence under the circumstances. To the extent the other evidence obtained is inconsistent with the responsible party's oral or written representations, the assurance practitioner investigates and evaluates such inconsistencies in terms of their impact on the assurance report and whether additional procedures are required in order to resolve the inconsistencies and obtain sufficient appropriate evidence.
- A61. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation of the financial information in the document, when such evidence would ordinarily be available, constitutes a limitation on the scope of the assurance engagement, even if a written representation from the responsible party has been received by the assurance practitioner on the matter.

**Forming the Assurance Conclusion**

*Emphasis of Matter Paragraph* (Ref: Para. 83)

- A62. An example of a matter that may give rise to an emphasis of matter paragraph is when the assurance practitioner believes the going concern assumption is appropriate, but a material uncertainty exists. In such circumstances, the assurance practitioner ordinarily considers the adequacy of the going concern related disclosures within the financial information and the other parts of the document. If the assurance practitioner considers the responsible party has adequately disclosed:
- (a) a description of the principal event(s) or condition(s) that cast significant doubt on the entity's going concern ability; and
  - (b) the fact that a material uncertainty exists related to the event(s) or condition(s); and
  - (c) therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business;

then the assurance practitioner is able to express an unmodified conclusion on the financial information, with an Emphasis of Matter paragraph to highlight the existence of the material uncertainty and to draw attention to the responsible party's disclosures. If there is not adequate disclosure, then the assurance practitioner expresses a qualified conclusion or adverse conclusion, as appropriate.

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<sup>85</sup> The concepts and discussions on obtaining written representations relevant to an audit engagement are contained in Auditing Standard ASA 580 *Written Representations*, and may be helpful in determining the form and content of written representations applicable to an assurance engagement.

*Modified Conclusion*

- A63. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation of the financial information, when such evidence would ordinarily be available, constitutes a limitation on the scope of the assurance engagement, even if a written representation from the responsible party has been received by the assurance practitioner on the matter. (Ref: Para. 84(c))
- A64. Applicable law or regulation may preclude the assurance practitioner from expressing a modified conclusion in an assurance report that is to be included in a public document. Where this is the case, and the assurance practitioner concludes that a modified conclusion is nevertheless appropriate, the assurance practitioner discusses the matter with the responsible party. If the responsible party does not agree to make the changes required to enable the assurance practitioner to issue an unmodified conclusion, the assurance practitioner considers whether to withhold the assurance report, withdraw from the assurance engagement, or obtain legal advice. If the responsible party decides to omit the modified assurance report from the document, the assurance practitioner considers any other professional reporting obligations such as, for example, to the entity's due diligence committee. (Ref: Para. 85)

**Preparing the Assurance Report**

- A65. The assurance report may be prepared solely in respect of one type of financial information or be a composite report where two or more types of financial information are the subject of the assurance report (for example historical and prospective financial information). (Ref: Para. 86)
- A66. If the assurance practitioner is preparing a composite assurance report, the assurance practitioner needs to ensure that: (Ref: Para. 87)
- (a) the different types of financial information are clearly identified in the document, and separately referred to in the assurance report; and
  - (b) the assurance report clearly identifies and segregates the work carried out, and type of assurance expressed, on the different types of financial information.
- A67. In respect of an assurance report that is being included in a public document prepared in accordance with the *Corporations Act 2001*, the assurance practitioner also needs to ensure that the assurance report is appropriately: (Ref: Para. 88)
- (a) cross referenced, and consistent with, other information disclosed in the public document; and
  - (b) positioned in the public document.
- A68. Appendix 3 contains illustrative examples of assurance reports. (Ref: Para. 86)

**Consent to the Inclusion of the Assurance Report in a Public Document** (Ref: Para. 89-90)

- A69. For assurance reports in connection with a public document prepared in accordance with the *Corporations Act 2001*, the assurance practitioner is required to consent to the form and context in which the assurance report is included in that public document.<sup>86</sup> Such consent is ordinarily provided by way of a separate consent letter issued to the entity prior to the assurance report. Consequently, the assurance practitioner ordinarily reads all other information included in the public document for consistency. If there are material inconsistencies, or material misstatements of fact, related to the financial information which remain uncorrected by the responsible party, or the assurance practitioner does not consider the assurance report will be used for the intended purpose, the assurance practitioner ordinarily does not provide consent.

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<sup>86</sup> See Section 716 of the *Corporations Act 2001*.

**Documentation** (Ref: Para. 91)

- A70. Sufficient appropriate documentation<sup>87</sup> should include a record of the assurance practitioner's reasoning on all significant matters that required the exercise of professional judgement, together with the assurance practitioner's conclusions on the matters. In areas involving difficult questions of estimate, principle or judgement, the documentation should include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.
- A71. In applying professional judgement to assessing the extent of documentation to be prepared and retained, the assurance practitioner ordinarily considers what would be necessary for another experienced assurance practitioner who has no previous experience with the assurance engagement to obtain an understanding of the work performed and the basis of the significant decisions taken. It is, however, neither necessary nor practicable to document every matter the assurance practitioner considers during the assurance engagement.

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<sup>87</sup> The concepts and discussions on documentation relevant to an audit engagement are contained in Auditing Standard ASA 230 *Audit Documentation*, and may be helpful in determining appropriate documentation to be obtained in an assurance engagement.



## **Historical Financial Information**

### **Preparing the Assurance Report** (Ref: Para. 95)

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

##### Reasonable Assurance

A72. The assurance report in a reasonable assurance engagement ordinarily follows a standard wording and only in summary form describes the procedures performed. This is because, in a reasonable assurance engagement, describing in any level of detail the specific procedures performed would not assist users to understand that, in all cases where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the assurance practitioner to express an opinion.

##### Limited Assurance

A73. In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential for the intended users to understand the conclusion expressed in a limited assurance report. A description of the assurance practitioner's procedures in a limited assurance engagement is ordinarily therefore more detailed than in a reasonable assurance engagement. It also may be appropriate to include a description of the procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the assurance practitioner's understanding and assessment of the risks of material misstatement are less than in a reasonable assurance engagement. The assurance practitioner does not ordinarily detail all procedures in the assurance report.

Factors to consider in making that determination and the level of detail to be provided include:

- (a) circumstances specific to the entity (for example, the differing nature of the entity's activities compared to those typical in the sector);
  - (b) specific engagement circumstances affecting the nature and extent of the procedures performed; and
  - (c) the intended users' expectations of the level of detail to be provided in the assurance report based on market practice, or applicable laws or regulations.
- A74. In describing the procedures performed in a limited assurance report, it is important that they are written in an objective way but are not summarised to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures does not give the impression that an agreed-upon procedures engagement has been undertaken.

## **Pro Forma Historical Financial Information**

A75. In Australia, assurance practitioners are ordinarily requested by the responsible party to provide assurance on the pro forma historical financial information. In circumstances where the assurance practitioner: (Ref: Para. 96)

- (a) cannot access, or obtain sufficient access to, documentation supporting the source of the unadjusted historical financial information or the pro forma adjustments; or
- (b) does not audit one of the entities whose financial information is included in the pro forma historical financial information;

the assurance practitioner and responsible party may alternatively agree for an assurance engagement to be conducted to report on the compilation of the pro forma historical financial information. In such circumstances, refer ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information Included in a Prospectus or other Document*.

A76. Circumstances such as those outlined in paragraph A75 may occur, for example: (Ref: Para. 96)

- (a) when the fundraising involves a takeover transaction in which neither the assurance practitioner nor the responsible party of the entity are able to access the other entity's financial information;
- (b) when the fundraising involves a takeover transaction where the other entity has not been subject to an audit or review; or
- (c) when there is insufficient time in which to conduct the engagement to enable the expression of assurance on the pro forma historical financial information itself.

## **Engagement Acceptance**

Other Factors Affecting Engagement Acceptance (Ref: Para. 98)

A77. Ordinarily, the assurance practitioner only provides limited assurance on pro forma historical financial information, as the pro forma adjustments made to the unadjusted financial information (which is historical) are based on the responsible party's stated basis of preparation. The assurance practitioner has no responsibility under the terms of the assurance engagement to perform an assessment of the appropriateness, or otherwise, of the selected stated basis of preparation.

## **Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement**

*Obtaining an Understanding of the Entity and Its Environment*

Unadjusted Financial Information has been Audited or Reviewed (Ref: Para. 99(a)(ii))

A78. The assurance practitioner may:

- (a) Request a copy of the audit or review report accompanying the unadjusted financial information and, if obtained, read it to understand if the report was modified or unmodified. If the report was modified, understand the reasons for the modification;
- (b) Contact the other assurance practitioner to request access to the audit working papers supporting the audit or review report and, if provided, read the work papers to assess the appropriateness of the audit approach taken for the purposes of placing reliance on that audit or review report in assessing the appropriateness of the source of the unadjusted financial information;

- (c) Read the unadjusted financial information to which the audit or review report relates to establish if its stated basis of preparation (that is, its accounting policies) and time frame covered are acceptable; and/or
- (d) Plan to perform further procedures as is considered necessary in the engagement circumstances.

A79. If the assurance practitioner requests access to the audit working papers of another assurance practitioner and is unable to obtain such access, this constitutes a limitation of scope on the assurance practitioner being able to assess the appropriateness of the source of the unadjusted financial information. If the assurance practitioner is unable to perform alternative procedures to obtain sufficient appropriate evidence on its appropriateness, the assurance practitioner modifies the conclusion in the assurance report in accordance with paragraph 84(c).\*

### **Overall Responses to Assessed Risks of Material Misstatement and Further Procedures**

#### *Assurance Procedures*

A80. The assurance procedures may include: (Ref: Para. 100(a))

- (a) enquiring of the responsible party about:
  - (i) the process by which the source has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled;
  - (ii) whether all transactions for the time period have been recorded;
  - (iii) whether the source has been prepared in accordance with the entity's accounting policies;
  - (iv) whether there have been any changes in accounting policies from the most recent audited or reviewed period, and, if so, how such changes have been dealt with;
  - (v) its assessment of the risk that the source may be materially misstated as a result of error or fraud; and
  - (vi) the effect of changes in the entity's business activities and operations;
- (b) if the assurance practitioner has audited or reviewed the immediately preceding annual or interim financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the unadjusted financial information has been extracted;
- (c) corroborating the information provided by the responsible party in response to the assurance practitioner's enquiries, when the responses appear inconsistent with the assurance practitioner's understanding of the entity, or the engagement circumstances; and
- (d) comparing the source with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the responsible party.

No Audit or Review of the Unadjusted Financial Information (Ref: Para. 100(b))

A81. When there is no audit or review report on the source from which the unadjusted financial information has been extracted, it is necessary for the assurance practitioner to perform procedures in relation to the appropriateness of that source. Factors that may affect the nature and extent of these procedures include, for example:

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\* See ASAE 3000, paragraphs 82-84 for further information.

- (a) Whether the assurance practitioner has previously audited or reviewed the entity's historical financial information, and the assurance practitioner's knowledge of the entity from such engagement.
- (b) How recently the entity's historical financial information was audited or reviewed.
- (c) Whether the entity's financial information is subject to periodic review by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements.
- (d) Whether the assurance practitioner is able to access documentation describing, and supporting, the source of the unadjusted historical financial information.
- (e) The type of assurance to be provided.

**Pro Forma Adjustments (Ref: Para. 100(e))**

A82. For the pro forma financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the stated basis of preparation. In the context of a business combination, for example, this may involve consideration of such matters as:

- (a) whether differences exist between the acquiree's accounting policies and those of the entity; and
- (b) whether accounting policies for transactions undertaken by the acquiree that the entity has not previously entered into, are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into account the entity's particular circumstances.

A83. Consideration of the appropriateness of the entity's accounting policies may also be necessary in some circumstances. For example, as part of the event(s) or transaction(s), the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:

- (a) whether the responsible party has selected appropriate accounting policies to be used in accounting for such financial instruments under its applicable financial reporting framework; and
- (b) whether it has appropriately applied such policies in preparing the pro forma historical financial information.

**Preparing the Assurance Report**

***Basic Elements of the Assurance Report*** (Ref: Para. 104(a)(iii))

A84. The stated basis of preparation for the pro forma historical financial information, as chosen by the responsible party, is ordinarily represented by the application to its base historical financial information of the recognition and measurement principles contained in Australian Accounting Standards and the adopted accounting policies, as well as the pro forma adjustments made.

## **Prospective Financial Information**

### **Assurance Engagement Acceptance**

#### *Preconditions for Acceptance*

Type of assurance (Ref: Para. 106(a))

- A85. The nature of prospective financial information, being information prepared based on events and actions that have not yet occurred, and may not occur, means that the engagement is conducted either as a limited assurance engagement, or in certain circumstances, a combined limited assurance and reasonable assurance engagement on different elements of the prospective financial information:
- (a) Assumptions - evidence may be available to support the responsible party's underlying assumptions, however such evidence is itself generally future orientated and, therefore, speculative in nature, as distinct from being factually supportable. Due to this, the assurance practitioner is not able to provide any assurance on the reasonableness of the assumptions but may be able to provide limited assurance on whether they provide reasonable grounds for the preparation of the prospective financial information.
  - (b) Basis of the prospective financial information - the assurance practitioner is ordinarily able to provide limited or reasonable assurance (depending on the terms of the engagement and the sufficiency and availability of evidence) that the prospective financial information has been prepared on the basis of those assumptions, and presented fairly in accordance with the entity's stated basis of preparation.
  - (c) Prospective financial information itself - given the nature of the evidence available to support the underlying source of the prospective financial information is inherently uncertain, the assurance practitioner is not able to conclude as to whether the results shown in the prospective financial information overall will be achieved, however the assurance practitioner may be in a position to provide limited assurance on whether the prospective financial information itself is unreasonable, based on the results of (a) and (b) above.
- A86. The type of assurance that the assurance practitioner agrees to provide on different elements of the prospective financial information may depend on the assurance practitioner's assessment of the following:
- (a) the engagement circumstances, including the nature (for example, complexity or simplicity) and type of the entity (for example, start up or ongoing), timeframe covered and overall purpose of including the prospective financial information in the document;
  - (b) the assurance practitioner's professional judgement in whether there is, or will be, sufficient appropriate evidence available to support the level of assurance requested; and
  - (c) any prior experience the assurance practitioner may have with the entity in terms of the accuracy, completeness and timeliness of financial information prepared by the responsible party.

#### **Other Factors Affecting Engagement Acceptance**

- A87. In obtaining a preliminary understanding of whether the assumptions have reasonable grounds, the assurance practitioner considers matters such as: (Ref: Para. 107(a)(i))
- (a) whether the time available to complete the engagement is adequate;

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- (b) the nature of the assumptions (best-estimate or hypothetical), and whether their impact is material to the prospective financial information;
- (c) the economic viability, stability and financial strength of the entity;
- (d) the economic viability and substance of the fundraising and the assumptions related to it;
- (e) the source, availability, and quality of the data supporting the assumptions (for example, the data is sourced from third parties/experts or by using statistical, mathematical or computer-assisted techniques); and
- (f) if applicable, the assurance practitioner's past experience with the accuracy of the entity's previous prospective financial information, as against actual results.

A88. If the source of the base financial information is historical and has not been previously audited or reviewed, the assurance practitioner, in order to obtain sufficient appropriate evidence on which to conclude and express limited assurance on the different elements of the prospective financial information, needs to be able to conduct a review of such historical financial information as part of the assurance engagement terms. (Ref: Para. 107(a)(iii))

A89. The assurance practitioner should be satisfied based on preliminary knowledge that the assurance engagement has a rational purpose. Examples where this may not be the case include: (Ref: Para. 107(b))

- (a) the reason for the preparation of the prospective financial information is unclear;
- (b) the prospective financial information does not have a reasonable basis for inclusion in a public document (for example it is a projection);<sup>88</sup>
- (c) the prospective financial information is materially affected by hypothetical assumptions;
- (d) there will be significant limitations on the scope of the assurance practitioner's work; or
- (e) the engagement circumstances lead the assurance practitioner to believe that the responsible party intends to associate the assurance practitioner's name with the prospective financial information in an inappropriate manner.

No Audit or Review Report on the Source of the Prospective Financial Information (Ref: Para. 109(c))

A90. This ASAE does not require the assurance practitioner to perform an audit or review of the source from which the unadjusted financial information has been extracted as part of the engagement, if such an audit or review has not already been performed.

Assumptions (Ref: Para. 111(b)(iv))

A91. A high risk that there may be a significant difference between the prospective financial information and actual results may call into question the suitability and reasonableness of the assumptions used as the basis for the preparation of the prospective financial information and their characterisation as reasonable.

Prospective Financial Information prepared in accordance with the Stated Basis of Preparation and Assumptions

A92. The assurance practitioner's evaluation of the stated basis of preparation used by the responsible party ordinarily includes: (Ref: Para. 113(a))

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<sup>88</sup> For prospective financial information included in a public document, see the *Corporations Act 2001* and Corporations Regulations for requirements. See RG 170, for guidance on what constitutes reasonable grounds for inclusion.

- (a) the process for its selection and approval;
- (b) the differences, if any to the basis of preparation, adopted in the most recent financial report; and
- (c) its suitability for the preparation of the prospective financial information, based on the stated purpose of the prospective financial information.

### **Preparing the Assurance Report**

#### *Basic Elements of the Assurance Report* (Ref: Para. 118(f)(ii))

##### Reasonable Assurance

- A93. The assurance report in a reasonable assurance engagement ordinarily follows a standard wording and only in summary form describes the procedures performed. This is because, in a reasonable assurance engagement, describing in any level of detail the specific procedures performed would not assist users to understand that, in all cases where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the assurance practitioner to express an opinion.

##### Limited Assurance

- A94. In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential for the intended users to understand the conclusion expressed in a limited assurance report. A description of the assurance practitioner's procedures in a limited assurance engagement is ordinarily therefore more detailed than in a reasonable assurance engagement. It also may be appropriate to include a description of the procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the assurance practitioner's understanding and assessment of the risks of material misstatement are less than in a reasonable assurance engagement. The assurance practitioner does not ordinarily detail all procedures in the assurance report.

Factors to consider in making that determination and the level of detail to be provided include:

- (a) circumstances specific to the entity (for example, the differing nature of the entity's activities compared to those typical in the sector);
  - (b) specific engagement circumstances affecting the nature and extent of the procedures performed; and
  - (c) the intended users' expectations of the level of detail to be provided in the report, based on market practice, or applicable laws or regulations.
- A95. In describing the procedures performed in a limited assurance report, it is important that they are written in an objective way but are not summarised to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures does not give the impression that an agreed-upon procedures engagement has been undertaken.

## **Projection**

### **Assurance Engagement Acceptance**

*Preconditions for Acceptance* (Ref: Para. 120(a))

- A96. The assurance practitioner does not express any assurance on the hypothetical assumptions as by their nature, sufficient appropriate evidence is not available to support such assumptions.

### **Overall Responses to the Assessed Risks of Material Misstatement and Further Procedures**

*Assurance Procedures*

*Hypothetical Assumptions* (Ref: Para. 123)

- A97. The assurance practitioner ordinarily considers, when hypothetical assumptions are used, all significant implications of the assumptions have been taken into consideration. For example, if sales are assumed to grow beyond the entity's current plant capacity, the prospective financial information will need to include the necessary investment in the additional plant capacity or the costs of alternative means of meeting the anticipated sales, such as by sub-contracting production.

### **Preparing the Assurance Report**

*Basic Elements of the Assurance Report* (Ref: Para. 127(a)(ii))

- A98. The stated basis of preparation for the projection, as chosen by the responsible party is ordinarily represented by the recognition and measurement principles contained in Australian Accounting Standards and the accounting policies adopted, as applied to the financial information, as if the future events or actions included in the projection will occur within the time frame covered by the projection (a "what-if" scenario).



## **Pro Forma Forecast**

### **Assurance Engagement Acceptance**

Other Factors Affecting Engagement Acceptance (Ref: Para. 130)

A99. Ordinarily, the assurance practitioner only provides limited assurance on a pro forma forecast, as the pro forma adjustments made to the unadjusted financial information are based on the responsible party's stated basis of preparation. The assurance practitioner has no responsibility under the terms of the assurance engagement to perform an assessment of the appropriateness, or otherwise, of the selected stated basis of preparation.

Understanding the Entity and Its Environment and Identifying and Assessing Risks of Material Misstatement

*Obtaining an Understanding of the Entity and Its Environment*

Audited or Reviewed Unadjusted Financial Information (Ref: Para. 131(a))

A100. The assurance practitioner may:

- (a) request a copy of the audit or review report accompanying the unadjusted financial information and, if obtained, read it to understand if the report was modified or unmodified. If the report was modified, understand the reasons for the modification;
- (b) contact the other assurance practitioner to request access to the audit working papers supporting the audit or review report and, if provided, read the work papers to assess the appropriateness of the audit approach taken for the purposes of placing reliance on that audit or review report in assessing the appropriateness of the source of the unadjusted financial information;
- (c) read the unadjusted financial information to which the audit or review report relates to establish if its stated basis of preparation (that is, its accounting policies) and time frame covered are acceptable; and/or
- (d) plan to perform further procedures as is considered necessary in the engagement circumstances.

A101. If the assurance practitioner requests access to the audit working papers of another assurance practitioner and is unable to obtain such access, this constitutes a limitation of scope on the assurance practitioner being able to assess the appropriateness of the source of the unadjusted financial information. If the assurance practitioner is unable to perform alternative procedures to obtain sufficient appropriate evidence on its appropriateness, the assurance practitioner modifies the conclusion in the assurance report in accordance with paragraph 84(c).\*

### **Overall Responses to Assessed Risks of Material Misstatement and Further Procedures**

*Assurance Procedures*

A102. The assurance procedures may include: (Ref: Para. 132(a))

- (a) enquiring of the responsible party about:
  - (i) the process by which the source has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled;
  - (ii) whether all transactions for the time period have been recorded;

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\* See ASAE 3000, paragraphs 82-84 for further information.

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- (iii) whether the source has been prepared in accordance with the entity's accounting policies;
  - (iv) whether there have been any changes in accounting policies from the most recent audited or reviewed period, and, if so, how such changes have been dealt with;
  - (v) its assessment of the risk that the source may be materially misstated as a result of error or fraud; and
  - (vi) the effect of changes in the entity's business activities and operations;
- (b) if the assurance practitioner has audited or reviewed the immediately preceding annual or interim financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the unadjusted financial information has been extracted;
  - (c) corroborating the information provided by the responsible party in response to the assurance practitioner's enquiries, when the responses appear inconsistent with the assurance practitioner's understanding of the entity, or the engagement circumstances and
  - (d) comparing the source with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the responsible party.

**No Audit or Review of the Unadjusted Financial Information (Ref: Para. 132(b))**

A103. When there is no audit or review report on the source from which the unadjusted financial information has been extracted, it is necessary for the assurance practitioner to perform procedures in relation to the appropriateness of that source. Factors that may affect the nature and extent of these procedures include, for example:

- (a) Whether the assurance practitioner has previously audited or reviewed the entity's historical financial information, and the assurance practitioner's knowledge of the entity from such engagement.
- (b) How recently the entity's historical financial information was audited or reviewed.
- (c) Whether the entity's financial information is subject to periodic review by the assurance practitioner, for example, for purposes of meeting regulatory filing requirements.
- (d) Whether the assurance practitioner is able to access documentation describing, and supporting, the source of the unadjusted historical financial information.
- (e) The type of assurance to be provided.

**Pro Forma Adjustments (Ref: Para. 132(c))**

A104. For the pro forma financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the stated basis of preparation. In the context of a business combination, for example, this may involve consideration of such matters as:

- (a) Whether differences exist between the acquiree's accounting policies and those of the entity; and
- (b) Whether accounting policies for transactions undertaken by the acquiree that the entity has not previously entered into, are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into account the entity's particular circumstances.

A105. Consideration of the appropriateness of the entity's accounting policies may also be necessary in some circumstances. For example, as part of the event(s) or transaction(s), the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:

- (a) whether the responsible party has selected appropriate accounting policies to be used in accounting for such financial instruments under its applicable financial reporting framework; and
- (b) whether it has appropriately applied such policies in preparing the pro forma forecast.

### **Preparing the Assurance Report**

*Basic Elements of the Assurance Report* (Ref: Para. 136(a)(iii))

A106. The stated basis of preparation for the pro forma forecast, as chosen by the responsible party, is ordinarily represented by the application to its base financial information of the recognition and measurement principles contained in Australian Accounting Standards and the adopted accounting policies, as well as pro forma adjustments made.

### **Conformity with International Standards on Assurance Engagements**

This Standard on Assurance Engagements has been made for Australian public interest purposes, and accordingly there is no equivalent International Standard on Assurance Engagements, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Compliance with this Standard on Assurance Engagements does not affect compliance with the ISAEs.

## **Appendix 1**

(Ref: Para. A10)

### **ILLUSTRATIVE ENGAGEMENT LETTER**

*The following illustrative engagement letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ASAE. It will need to be varied according to individual requirements and circumstances.*

**Engagement Circumstances are:**

**ABC Company proposes a takeover of XYZ Target company.**

**Limited assurance engagement on historical financial information, pro forma historical financial information and a forecast.**

#### **Introduction**

This letter confirms our understanding of the terms of engagement requiring our services as investigating accountant in respect of financial information to be included in the proposed public document of ABC Company Limited (“ABC Company”) to be issued in connection with the proposed acquisition of XYZ Target Limited (“Target”). The purpose of this letter is to outline the role and approach of [firm name] and the assurance report we will deliver.

#### **Scope of our work**

Our firm will:

- perform procedures, described below, to enable us to report on the ABC Company’s historical Statement of Financial Position as at 30 June 20X1, Statements of Financial Performance for the years ended 30 June 20XX and 20X1 and Statements of Cash Flows for the years ended 30 June 20XX and 20X1 (the “historical financial information”);
  - perform procedures, described below, to enable us to report on ABC Company’s pro forma historical Statement of Financial Position, shown with pro forma adjustments to show the effect of events and transactions related to the takeover as if they had occurred at 30 June 20XX, pro forma historical Statements of Financial Performance for the years ended 30 June 20XX and 20X1 and pro forma historical Statements of Cash Flows for the years ended 30 June 20XX and 20X1 (the “pro forma historical financial information”);
  - perform procedures, described below, to enable us to report on ABC Company’s forecast Statements of Financial Performance for the year ending 30 June 20XX (“the forecast”); and
  - perform procedures, described below, to enable us to report on ABC Company’s forecast Statement of Financial Performance for the year ending 30 June 20XX (“the forecast”);
- collectively referred to as the “financial information”.

We will conduct our engagement in accordance with ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

#### **Review of ABC Company’s historical financial information**

We will review the historical financial information of ABC Company, comprising the Statement of Financial Position as at 30 June 20X1, Statements of Financial Performance and Statements of Cash Flows for the years ended 30 June 20XX and 20X1, in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that the historical financial information is not prepared, in all material respects, in accordance with the recognition and measurement principles contained in Australian Accounting Standards and the entity’s

adopted accounting policies, as described in the proposed public document (the “stated basis of preparation”).

The review procedures will include, but are not limited to:

- analytical procedures on the unaudited Statement of Financial Position of ABC Company as at 30 June 20X1, Statements of Financial Performance and Statements of Cash Flows of ABC Company for the years ended 30 June 20XX and 20X1;
- a consistency check of the application of the stated basis of preparation, as described in the proposed public document, to the historical financial information;
- a review of ABC Company’s work papers, accounting records and other documents; and
- enquiry of directors, management and others in relation to the historical financial information.

Our review procedures will not provide all the evidence that would be required in an audit, thus the level of assurance (limited assurance) provided will be less than given in an audit. Our review is not an audit and, accordingly, we will not express an audit opinion.

#### **Review of ABC Company’s pro forma historical financial information**

We will review the director’s pro forma historical financial information in order to state whether, on the basis of the procedures described, anything comes to our attention that would cause us to believe that the pro forma historical financial information is not prepared, in all material respects, by the directors on the basis of the stated basis of preparation. The stated basis of preparation is:

- the historical financial information of ABC Company extracted from the audited financial statements of ABC Company for the years ended 30 June 20XX and 20X1; and
- the pro forma adjustments applied to the historical financial information from ABC Company to illustrate the effects of the takeover on ABC Company described in section [X] of the proposed public document.

The review procedures will include, but are not limited to:

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of historical financial information of ABC Company from its audited financial statements for the years ended 30 June 20XX and 20X1;
- consideration of the pro forma adjustments described in section [X] of the proposed public document;
- enquiry of directors, management, personnel and advisors;
- the performance of analytical procedures applied to the pro forma historical financial information;
- a review of work papers, accounting records and other documents of ABC Company and its auditors; and
- a review of accounting policies for consistency of application.

The procedures will not provide all the evidence that would be required in an audit, thus, the level of assurance provided (limited assurance) will be less than given in an audit. Our review is not an audit and, accordingly, we will not express an audit opinion.

#### **Review of ABC Company forecast**

We will review the ABC Company forecast and the directors’ best-estimate assumptions underlying it in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions do not provide reasonable grounds for the ABC Company forecast;
- in all material respects the forecast is not:
  - prepared on the basis of the directors' best-estimate assumptions as described in section [X] of the proposed public document; and
  - presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards, applied to the forecast and the company's adopted accounting policies;
- the forecast itself is unreasonable.

The review procedures will include, but are not limited to enquiry, comparison, and other such analytical review procedures we consider necessary.

Our review of the ABC Company forecast will be limited primarily to:

- comparison and analytical review procedures;
- discussions with management and directors of ABC Company of the factors considered in determining their assumptions; and
- examination, on a test basis, of evidence supporting:
  - the assumptions and amounts in the forecast; and
  - the evaluation of accounting policies used in the forecast.

We will require written representations and confirmations from the directors and management to be provided to ensure the assumptions applied in the preparation of the ABC Company forecast are consistent with the directors' knowledge and expectation.

Our review of the ABC Company forecast will be substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit. Our review is not an audit and we will not express an audit opinion on the ABC Company forecast or the directors' best-estimate assumptions underlying the ABC Company forecast. Our Firm will not express any opinion as to whether the ABC Company forecast will be achieved, or warrant or guarantee any statements as to the future prospects of ABC Company.

#### **Review of the ABC company pro forma forecast**

We will review the directors' pro forma forecast in order to state whether based on the procedures performed anything has come to our attention that causes us to believe that the pro forma forecast is prepared, in all material respects by the directors, in accordance with the stated basis of preparation. The stated basis of preparation is:

- the ABC Company forecast; and
- the directors' best-estimate assumptions underlying the pro forma forecast.

Our review procedures will include, but are not limited to enquiry, comparison, and other such analytical review procedures we consider necessary.

Our review of the ABC Company pro forma forecast will be substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit. Our review is not an audit and we will not express an audit opinion on the pro forma forecast or the directors' best-estimate assumptions underlying the pro forma forecast. Our Firm will not express any opinion as to whether the pro forma forecast will be achieved, or warrant or guarantee any statements as to the future prospects of ABC Company.

## **Reporting**

As a result of the above work procedures, we intend to issue an Independent Assurance Report to the directors of ABC Company for inclusion in the proposed public document.

## **Reliance on information**

The directors of ABC Company are responsible for:

- the content of the proposed public document, other than the content of our Independent Assurance Report, and any other experts' reports;
- issuing the proposed public document;
- the preparation and presentation of the financial information included in the proposed public document;
- the directors' best-estimate assumptions on which the ABC Company forecast is based;
- the directors' best-estimate assumptions on which the pro forma forecast is based; and
- the inclusion in the proposed public document of information regarding the sensitivity of the ABC Company forecast and the pro forma forecast to changes in key assumptions.

We do not assume any liability for information or statements included in the public document other than our Independent Assurance Report.

We will require written representations from ABC Company that all material information relevant to the financial information within the company's possession has been provided prior to the finalisation of our reports, and that no material changes have occurred between the date of our report and the date of lodgement of the proposed public document with the Australian Securities and Investments Commission ("ASIC") which could affect our findings.

## **Consent**

Prior to the issue of the proposed public document, we will review the document in its entirety, to consider whether we consent to the form and context in which we are named as Investigating Accountant, and to consider whether we consent to the inclusion of our Independent Assurance Report in the form and context in which it is included. Our consent will be issued on the letterhead of [firm name] and should then be quoted in the proposed public document.

The consent relates to the use of our name and report in the context of the whole proposed public document. Our name or report, or any extract, may not be included in any analysts' briefings, in any display on an internet site or in any other media without our prior consent. [Firm name] will be giving the consent pursuant to section 636(3) of the *Corporations Act 2001* but will not otherwise be authorising or causing the issue of the public document.

In the event of any misuse of our name or our reports, [firm name] reserves the right to withdraw its consent by written notification to ABC Company at its registered office and to ASIC.

*[Insert other information such as fee arrangements, billings and other specific terms and conditions, as appropriate.]*

## **Acceptance of Engagement Terms**

We look forward to working closely with the directors of ABC Company in relation to this engagement.

Please sign and return the attached copy of this engagement letter to indicate your acknowledgement of, and agreement with, the terms and conditions detailed in this engagement letter, including our respective responsibilities. If you wish to discuss any aspect of this letter, please do not hesitate to contact me.



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Yours Faithfully

[Firm name]

[Name of partner]

Partner

**Client Acceptance**

I have read and understood the terms and conditions of this letter, and the attached Appendix 1, and I agree to and accept them for and on behalf of ABC Company, by whom I am duly authorised:

Signature .....

Name .....

Position .....

## Appendix 2

(Ref: Para. A59)

### ILLUSTRATIVE REPRESENTATION LETTER

*The following illustrative representation letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ASAE. It will need to be varied according to individual engagement requirements and circumstances.*

**Engagement Circumstances include the following:**

**ABC Company proposes to issue a public document.**

**Limited assurance engagement reporting on historical financial information, pro forma historical financial information and a directors' forecast.**

#### Entity Letterhead

Firm Name

Address

[Date]

Dear Sirs,

This letter is provided in connection with your engagement to provide an independent assurance report on the financial information (comprising historical financial information, pro forma historical financial information and the Directors' forecast included in the public document of ABC Company Limited ("ABC Company") to be dated on or around [31 October 20XX], in accordance with the terms and conditions contained in your engagement letter dated [insert date].

Expressions and terms defined in the public document have the same meaning in this letter.

#### General Representations

We acknowledge that your engagement has been conducted in accordance with Standard on Assurance engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*. We understand that your engagement involved a review of the financial information in order to provide limited assurance, and consequently the procedures performed were limited primarily to enquiries of ABC Company personnel and analytical review procedures applied to the financial information, and thus provide less assurance than in an audit. You have not performed an audit and accordingly you do not express an audit opinion. *[Note that this paragraph will need to be amended if the assurance engagement involves providing reasonable assurance in relation to any of the financial information.]*

We acknowledge our responsibility for the preparation of the public document, including the preparation and presentation of all financial information contained therein, in accordance with the *Corporations Act 2001* (the Act).

We confirm that, to the best of our knowledge and belief (having made such enquiries as we considered necessary for the purposes of appropriately informing ourselves):

- ABC Company's financial information has been prepared on a going concern basis. Having considered the circumstances likely to affect ABC Company during the next 12 months, and the circumstances that we know will arise thereafter, we are satisfied that the going concern basis of preparing the financial information is appropriate.
- All material financial information, financial records, related data and other information relevant to the historical financial information and pro forma historical financial information

within the possession of ABC Company have been provided to [Firm Name] prior to the finalisation of the assurance report. [Firm Name] is entitled to rely on the information provided by ABC Company and to assume that the information provided is, to the best knowledge and belief of management and the directors, accurate and, except where otherwise indicated, complete.

- In the performance of the assurance engagement, [Firm Name] has been entitled to rely on the information provided by ABC Company and to assume that the information provided is, to the best knowledge and belief of management and the directors of ABC Company, accurate and, except where otherwise indicated, complete.
- Any material changes that may have occurred between the date of the assurance report and the lodgement date of the public document with the Australian Securities and Investments Commission (“ASIC”) have been advised to [Firm Name].
- All material events and transactions have been properly recorded in the accounting records underlying the financial information.
- We are responsible for, and have established and maintained, an adequate internal control structure to facilitate the preparation of reliable financial information. We acknowledge our responsibility for the implementation and operation of accounting and internal controls systems that are designed to prevent and detect fraud and error.
- There has been no fraud or suspected fraud involving any member of management or employee with a significant role in monitoring or implementing ABC Company’s system of internal controls, or any other employee, that could have had a material effect on the financial information.
- [Other than detailed in the public document], there have been no violations, or possible violations, of laws, regulations or contractual agreements, the effects of which should be considered as the basis for recording a liability or for disclosure in the public document.
- [Other than detailed in the public document], there have been no communications from governmental or other regulatory authorities concerning non-compliance with, or deficiencies in, the group’s adherence to relevant legislation. ABC Company has put in place appropriate procedures to ensure compliance with such legislation and the procedures have been applied throughout the financial periods under review.
- [Other than detailed in the public document], there have been no changes in accounting policies, or the application of the accounting policies, that have a material effect on the financial information. The accounting policies have been consistently applied in the preparation of the financial information.
- We believe there have been no uncorrected misstatements that are material, both individually and in aggregate, to any of the financial information under review. The uncorrected misstatements contained in [Appendix 1] are, we believe, immaterial, both individually and in aggregate to the financial information to which it relates.
- All material risks that may impact on the business have been adequately disclosed in the public document and considered in relation to their impact on the financial information.
- Other than those already adjusted for, and/or disclosed, there have been no matters or events that have arisen, or been discovered, subsequent to the preparation of the financial information that would require adjustment to that financial information or disclosure in the public document.
- There will not be any deficiencies or encumbrances attaching to the title of ABC Company’s assets during the period covered by the financial information, other than those already reflected in the public document.

## Standard on Assurance Engagements ASAE 3450

### *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*

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- ABC Company has no plans or intentions that could materially affect the book value or classification of assets or liabilities during the period of the financial information that are not already reflected therein.
- The ABC Company's board of directors is not aware of any breach or non-compliance with the terms of any contractual arrangements, however caused, that could initiate claims against ABC Company, and which would have a material effect on the financial information.
- *[Include any other matters that the assurance practitioner considers appropriate.]*

#### **Historical financial information and pro forma historical financial information**

With respect to the historical financial information and pro forma historical financial information of ABC Company for the year's ended 30 June 20XX and 20X1, we acknowledge our responsibility for the preparation and presentation of that financial information to which the independent assurance report relates. These financial statements include the Statement of Financial Position, Statements of Financial Performance, Statement of Cash flows and related notes. We confirm that, to the best of our knowledge and belief (having made such enquiries as we considered necessary for the purposes of appropriately informing ourselves):

- ABC Company's historical financial information included in the public document has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the adopted accounting policies of ABC Company as described in section [X] of the public document.
- ABC Company's pro forma historical financial information included in the public document has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the adopted accounting policies applied to:
  - ABC Company's historical financial information, as described in section [X] of the public document; and
  - pro forma adjustments as described in section [X] of the public document as if those adjustments had occurred as at the date of ABC Company's historical financial information.
- Disclosures not included in the public document with respect to the financial information have been determined by us to be not material to users of the public document.

#### **Directors' forecast**

With respect to the directors' forecast prepared in respect of the financial period 30 June 20XX to 30 June 20X2, we acknowledge our responsibility for the preparation and presentation of that information, the best-estimate assumptions used therein and its compliance with the stated basis of preparation.

We confirm that, to the best of our knowledge and belief (having made such enquiries as we considered necessary for the purposes of appropriately informing ourselves):

- The best-estimate assumptions described in section [X] of the public document have been agreed by ABC Company's board of directors, and provide a reasonable basis for the directors' forecast.
- The best-estimate assumptions underlying the directors' forecast have reasonable grounds, are supportable and consistent between themselves and with ABC Company's strategic plans, and have been consistently applied.
- The Directors' forecast has been prepared using the best-estimate assumptions, based on present circumstances, as to both the most likely set of economic, operating, developmental,

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***Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information***

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and trading conditions and the course of action ABC Company is most likely to take. Accordingly, the Directors' forecast is appropriately called a forecast.

- All liabilities which will arise out of the activities of ABC Company have been included in the directors' forecast.
- During your review we have made available to you all records and information available to us at the time and on which we have based our financial model.
- The accounting policies adopted in preparing the directors' forecast for the year ending 30 June 20XX are those that are expected to be used for reporting historical financial information for the corresponding period.
- No transactions(s) or event(s) have occurred to the time of signing this letter that would necessitate adjustment to the directors' forecast, or disclosure in the public document, which we have not brought to your attention.
- *[Include any other matters that the assurance practitioner considers appropriate].*

**Conclusion**

This representation is provided to [Firm Name], [its Directors and employees], in connection with the public document dated 30 June 20XX to be issued by ABC Company.

Yours faithfully

ABC Company Limited

Name

Director

## **Appendix 3**

(Ref: Para. A68)

### **ILLUSTRATIVE ASSURANCE REPORTS**

*The following illustrative assurance reports can be tailored for specific engagement circumstances.*

- Illustration 1: Independent Assurance Report on historical financial information and pro forma historical financial information included in a public document, with unmodified limited assurance conclusions
- Illustration 2: Independent Assurance Report on a forecast and pro forma forecast included in a public document, with unmodified limited assurance conclusions
- Illustration 3: Independent Assurance Report on prospective financial information in the form of a forecast, not included in a public document, with an unmodified limited assurance conclusion
- Illustration 4: Independent Assurance Report on prospective financial information in the form of a forecast, not included in a public document, with a mixture of unmodified limited assurance and reasonable assurance on different elements of the prospective financial information

**Illustration 1: Engagement Circumstances include the following:**

- **ABC Company proposes to issue a public document which includes historical financial information and pro forma historical financial information.**
- **Limited assurance engagement on historical financial information and pro forma historical financial information, with unmodified conclusions.**

[Date]<sup>89</sup>

[The Addressees]

ABC Company Limited

[Address]

Dear [Addressees]<sup>90</sup>

**Independent Limited Assurance Report on ABC Company historical and pro forma historical financial information**

We have been engaged by ABC Company Limited (“ABC Company”) to report on the historical financial information and pro forma historical financial information of ABC Company [as at/for the period [date]] for inclusion in the public document dated on or about [insert date] and relating to the issue of [X] shares in ABC Company (“the document”).

Expressions and terms defined in the document have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an [please specify]<sup>91</sup> under the *Corporations Act 2001*. [Firm name] holds the appropriate [please specify] under the *Corporations Act 2001*.

*[Insert any background information relating to ABC Company and/or the proposed fundraising deemed relevant; if any.]*

**Scope**

*Historical Financial Information*

You have requested [Firm Name] to review the following historical financial information of ABC Company (the responsible party) included in the public document:

- the Statement of Financial Performance for the [year(s)/period(s)] ended [insert date];
- the Statement of Financial Position as at [insert date];
- the Statement of Cash Flows for the [(year(s)/period(s)] ended [insert date];

The historical financial information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the company’s adopted accounting policies. The historical financial information has been extracted from the financial report of ABC Company for the year(s) ended [insert date], which was audited by [Firm Name] in accordance with the Australian Auditing Standards. [Firm Name] issued a [modified/unmodified] audit opinion on the financial report. The historical financial information is presented in the public document in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

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<sup>89</sup> The date of both the hard copy and electronic version of the report should be the same. See ASIC’s RG 107 *Electronic Prospectuses*.

<sup>90</sup> For example, the Directors or other title, as appropriate, in the circumstances of the assurance engagement.

<sup>91</sup> An example is an Australian Financial Services License (AFSL)

*Pro Forma historical financial information*

You have requested [Firm Name] to review the pro forma historical Statement of Financial Position as at [insert date] referred to as “the pro forma historical financial information”.

The pro forma historical financial information has been derived from the historical financial information of ABC Company, after adjusting for the effects of pro forma adjustments described in section [X] of the public document. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section [X] of the public document, as if those event(s) or transaction(s) had occurred as at the date of the historical financial information. Due to its nature, the pro forma historical financial information does not represent the company’s actual or prospective [financial position], [financial performance], and/or [cash flows].

*[Insert any other information relating to the underlying event(s) or transaction(s), which is deemed appropriate.]*

**Directors’ responsibility**

The directors of ABC Company are responsible for the preparation of the historical financial information and pro forma historical financial information, including the selection and determination of pro forma adjustments made to the historical financial information and included in the pro forma historical financial information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of historical financial information and pro forma historical financial information that are free from material misstatement, whether due to fraud or error.

**Our responsibility**

Our responsibility is to express a limited assurance conclusion on the financial information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

**Conclusions**

*Historical financial information*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the historical financial information, as described in section [X] of the public document, and comprising:

- the Statement of Financial Performance of ABC Company for the [year(s)/period(s)] ended [insert date];
- the Statement of Financial Position as at [insert date]; and
- the Statement of Cash flows for the [year(s)/period(s)] ended [insert date];



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are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section [X] of the document.<sup>92</sup>

*Pro Forma historical financial information*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the pro forma historical financial information being the Statement of Financial Position as at [insert date] is not presented fairly in all material respects, in accordance with the stated basis of preparation as described in section [X] of the document.

**Restriction on Use**

Without modifying our conclusions, we draw attention to section [X] of the public document, which describes the purpose of the financial information, being for inclusion in the public document. As a result, the financial information may not be suitable for use for another purpose.

Consent [Firm name] has consented<sup>93</sup> to the inclusion of this assurance report in the public document in the form and context in which it is included.

**Liability**

*[Liability wording to be inserted for individual Firm practice.]*

**Declaration of Interest [or Disclosure of Interest]**

[Firm Name] does not have any interest in the outcome of this [transaction]<sup>94</sup> other than in [state interest] for which normal professional fees will be received.

**Financial Services Guide**

*[If applicable, insert wording.]*

Yours faithfully

[Firm Name]<sup>95</sup>

Date

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<sup>92</sup> Identify any departures from the recognition and measurement principles contained in the Australian Accounting Standards.

<sup>93</sup> Consent is ordinarily provided in a separate consent letter, which can be referenced here.

<sup>94</sup> Identify the nature of the event(s) or transaction(s), for example, the issue of shares or scheme of arrangement.

<sup>95</sup> Where applicable, this may be replaced with "representative of the licensee".

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

- **ABC Company proposes to issue a public document in accordance with the *Corporations Act 2001* which includes prospective financial information.**
- **Limited assurance engagement on prospective financial information in the form of a forecast and a pro forma forecast, with unmodified conclusions.**

[Date]<sup>96</sup>

The [Addressees]

ABC Company Limited

Address]

Dear [Addressees]<sup>97</sup>

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

We have been engaged by ABC Company Limited [“ABC Company”] to report on the forecast Statement of Financial Performance (“forecast”) and pro forma forecast Statement of Financial Performance (“pro forma forecast”) [for the period ending] 30 June 20X0 of ABC Company for inclusion in the [public document]<sup>98</sup> dated on or about [insert date] and relating to the issue of [X shares/units] in ABC Company.

Expressions and terms defined in the public document have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an [please specify]<sup>99</sup> under the *Corporations Act 2001*. [Firm name] holds the appropriate [please specify] under the *Corporations Act 2001*.

*[Insert any background information relating to ABC Company and/or the proposed fundraising deemed appropriate; if any.]*

**Scope**

You have requested [Firm Name] to review the following financial information of ABC Company (the responsible party) included in the public document:

- the forecast Statement of Financial Performance of ABC Company for the period(s) ending [insert date], as described in section [X] of the public document. The directors’ best-estimate assumptions underlying the forecast are described in section [X] of the public document. The stated basis of preparation used in the preparation of the forecast is [include a reference to, or a description of the stated basis of preparation, for example, the recognition and measurement principles contained in Australian Accounting Standards and the entity’s adopted accounting policies]; and
- the pro forma forecast Statement of Financial Performance of ABC Company for the period(s) ending [insert date], described in section [X] of the public document. The pro forma forecast has been derived from ABC Company’s forecast, after adjusting for the effects of the pro forma adjustments described in section [X] of the public document. The stated basis of preparation used in the preparation of the pro forma forecast is [include a reference to, or a description of the stated basis of preparation, for example, the recognition and measurement principles contained in Australian Accounting Standards applied to the forecast and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section [X] of the public document, as if those event(s) or transaction(s) had occurred as at

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<sup>96</sup> The date of both the hard copy and electronic version of the report should be the same. See ASIC’s RG 107 *Electronic Prospectuses*.

<sup>97</sup> For example, the Directors or other title, as appropriate, in the circumstances of the assurance engagement.

<sup>98</sup> Specify the type of the public document.

<sup>99</sup> An example is an Australian Financial Services License (AFSL).

1 July 20XX]. Due to its nature, the pro forma forecast does not represent the company's actual prospective [financial position], [financial performance], and/or [cash flows] [for the period(s) ending/as at] [insert date].

### **Directors' Responsibility**

The directors of ABC Company are responsible for the preparation of the forecast [for the period(s) ending/as at] [insert date], including the best-estimate assumptions underlying the forecast. They are also responsible for the preparation of the pro forma forecast for the period ending [insert date], including the selection and determination of the pro forma adjustments made to the forecast and included in the pro forma forecast. This includes responsibility for such internal control as the directors determine are necessary to enable the preparation of a forecast and a pro forma forecast that are free from material misstatement, whether due to fraud or error.

### **Our Responsibility**

Our responsibility is to express limited assurance conclusions on the forecast and pro forma forecast, the best-estimate assumptions underlying the forecast and pro forma forecast, and the reasonableness of the forecast and pro forma forecast themselves, based on our review. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

### **Conclusions**

#### *Forecast*

Based on our limited assurance engagement, which is not a reasonable assurance engagement, nothing has come to our attention which causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the forecast Statement of Financial Performance of ABC Company [for the year(s)/period(s) ending] [insert date] do not provide reasonable grounds for the forecast; and
- in all material respects, the forecast:
  - is not prepared on the basis of the directors' best-estimate assumptions as described in section [X] of the public document; and
  - is not presented fairly in accordance with the stated basis of preparation, being [insert a reference to, or a description of the stated basis of preparation, for example, the recognition and measurement principles contained in Australian Accounting Standards and the entity's adopted accounting policies]; and
- the forecast itself is unreasonable.

#### *Pro Forma Forecast*

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

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- the directors' best-estimate assumptions used in the preparation of the pro forma forecast Statement of Financial Performance of ABC Company [for the year(s) ended/period(s) ending] [insert date] do not provide reasonable grounds for the pro forma forecast; and
- in all material respects, the pro forma forecast:
  - is not prepared on the basis of the directors' best-estimate assumptions, as described in section [X] of the public document; and
  - is not presented fairly in accordance with the stated basis of preparation, being [insert reference to, or a description of the stated basis of preparation, for example, the recognition and measurement principles contained in Australian Accounting Standards and the company's adopted accounting policies, applied to the forecast and the pro forma adjustments as if those adjustments had occurred as at the date of the forecast]; and
- the pro forma forecast itself is unreasonable.

*Forecast and Pro Forma Forecast*

The forecast and pro forma forecast have been prepared by management and adopted by the directors in order to provide prospective investors with a guide to the potential financial performance of ABC Company [for the period(s)/year(s) ending] [insert date]. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the forecast and pro forma forecast since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation may be material. The directors' best-estimate assumptions on which the forecast and pro forma forecast are based relate to future event(s) and/or transaction(s) that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the ABC Company. Evidence may be available to support the directors' best-estimate assumptions on which the forecast and pro forma are based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in ABC Company, which are detailed in the public document, and the inherent uncertainty relating to the forecast and pro forma forecast. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in section [X] of the public document. The sensitivity analysis described in section [X] of the public document demonstrates the impact on the forecast and pro forma forecast of changes in key best-estimate assumptions. We express no opinion as to whether the forecast or pro forma forecast will be achieved.

The forecast and pro forma forecast have been prepared by the directors for the purpose of [insert description].<sup>100</sup> We disclaim any assumption of responsibility for any reliance on this report, or on the forecast or pro forma forecast to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of management of ABC Company, that all material information concerning the prospects and proposed operations of ABC Company has been disclosed to use and that the information provided to use for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

**Restriction on Use**

Without modifying our conclusions, we draw attention to section [X] of the public document, which describes the purpose of the forecast and pro forma forecast, being for inclusion in the public

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<sup>100</sup> Indicate the Directors' purpose for preparing the forecast, for example: "to provide prospective investors with a guide to the potential financial performance of ABC Company for the year(s) ending [insert date]."

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document. As a result, the forecast and pro forma forecast may not be suitable for use for another purpose.

**Consent**

[Firm name] has consented<sup>101</sup> to the inclusion of this assurance report in the public document in the form and context in which it is included.

**Liability**

*[Liability wording to be inserted for individual Firm practice.]*

**Declaration of Interest [or Disclosure of Interest]**

[Firm Name] does not have any interest in the outcome of this [transaction]<sup>102</sup> other than in [state interest] for which normal professional fees will be received.

**Financial Services Guide**

*[If applicable, insert wording.]*

Yours faithfully

[Firm Name]<sup>103</sup>

Date

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<sup>101</sup> Consent is ordinarily provided in a separate consent letter, which can be referenced here.

<sup>102</sup> Identify the nature of the event(s) or transaction(s), for example, the issue of shares or scheme of arrangement.

<sup>103</sup> Where applicable, this may be replaced with "representative of the licensee".

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

- **ABC Company has prepared a non-public document, and includes prospective financial information.**
- **Limited assurance engagement on prospective financial information in the form of a forecast, with an unmodified limited assurance conclusion.**

[Date]<sup>104</sup>

The [Addressees]

[Name of Entity]

[Address]

Dear [Addressees]<sup>105</sup>

**Independent Assurance Report on ABC Company forecast**

We have been engaged by ABC Company Limited (“ABC Company”) to report on the forecast Statement of Financial Performance for the period ending 30 June 20X0 of ABC Company for inclusion in section [X] of the [describe document], dated on or about [insert date], and relating to [please specify] (“the document”). As agreed in our engagement letter dated [insert date], this report is prepared solely for distribution to users specified in section [X] of the document.

Expressions and terms defined in the document have the same meaning in this report.

*[Insert any background information relating to ABC Company and/or the proposed fundraising deemed appropriate; if any.]*

**Scope**

You have requested [Firm Name] to review the ABC Company forecast included in the document. The stated basis of preparation used in the preparation of the forecast by ABC Company (the responsible party) is [include a reference to, or a description of the stated basis of preparation, for example, the recognition and measurement principles contained in Australian Accounting Standards and the company’s adopted accounting policies.]

**Management’s Responsibility**

The management of ABC Company is responsible for the preparation of the forecast for the period(s) ending [insert date], including the best-estimate assumptions underlying the forecast. This includes responsibility for such internal controls as management determines are necessary to enable the preparation of a forecast that is free from material misstatement, whether due to fraud or error.

**Our Responsibility**

Our responsibility is to express limited assurance conclusions on the forecast, the best-estimate assumptions underlying the forecast, and the reasonableness of the forecast itself, based on our work. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance engagement consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It is substantially less in scope than a reasonable assurance engagement conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that

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<sup>104</sup> The date of both the hard copy and electronic version of the report should be the same. See ASIC’s RG 107 *Electronic Prospectuses*.

<sup>105</sup> For example, the Directors or other title, as appropriate, in the circumstances of the assurance engagement.

we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

### **Conclusion**

Based on our limited assurance engagement, which is not a reasonable assurance engagement, nothing has come to our attention which causes us to believe that:

- management's best-estimate assumptions do not provide reasonable grounds for the preparation of the forecast Statement of Financial Performance of ABC Company [for the year(s)/period(s) ending] [insert date]; and
- in all material respects, the forecast:
  - is not prepared on the basis of management's best-estimate assumptions as described in section [X] of the document; and
  - is not presented fairly in accordance with the stated basis of preparation, being [insert a reference to, or a description of the stated basis of preparation, for example, the recognition and measurement principles contained in Australian Accounting Standards and the entity's adopted accounting policies]; and
- the forecast itself is unreasonable.

The forecast has been prepared by management and adopted by the directors in order to provide [please specify] with a guide to the potential financial performance of the ABC Company [for the period(s)/year(s) ending] [date]. There is a considerable degree of subjective judgement involved in preparing a forecast since it relates to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the forecast since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation may be material.

Management's best-estimate assumptions on which the forecast is based relate to future event(s) and/or transaction(s) that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the ABC Company. Evidence may be available to support management's best-estimate assumptions on which the forecast is based; however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to obtain the level of assurance necessary to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly provide a lesser level of assurance on the reasonableness of management's best-estimate assumptions. The limited assurance conclusion expressed in this assurance report has been formed on the above basis.

Readers of the document should be aware of the material risks and uncertainties in relation to [please insert details], which are detailed in the [public document], and the inherent uncertainty relating to the forecast. Accordingly, readers should have regard to the risks and sensitivities as described in section [X] of the document. The sensitivity analysis as described in section [X] of the document demonstrates the impact on the forecast of changes in key best-estimate assumptions. We express no opinion as to whether the forecast will be achieved.

The forecast has been prepared by management for [the purpose of]. We disclaim any assumption of responsibility for any reliance on this report, or on the forecast to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of management of ABC Company that all material information concerning the prospects and proposed operations of ABC Company has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

### **Reliance on this report**

This report is addressed to the directors of ABC Company (as responsible party for ABC Company) and [specify]. *[Include any other matters that the assurance practitioner considers appropriate].*

**Restriction on Use**

Without modifying our conclusions, we draw attention to section [X] of the public document, which describes the purpose of the financial information, being for inclusion in the public document. As a result, the forecast may not be suitable for use for another purpose.

**Consent**

[Firm name] has consented<sup>106</sup> to the inclusion of this assurance report in the public document in the form and context in which it is included.

**Liability**

*[Liability wording to be inserted for individual Firm practice.]*

**Declaration of Interest [or Disclosure of Interest]**

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

**Financial Services Guide**

*[If applicable, insert wording.]*

Yours faithfully

[Firm Name]

Date

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



**Illustration 4: Engagement Circumstances include the following:**

- **ABC Company has prepared a non-public document, which includes prospective financial information.**
- **The engagement is a mixture of unmodified limited assurance and unmodified reasonable assurance on different elements of the prospective financial information in the form of a forecast.**

[Date]<sup>107</sup>

The [Addressees]

[Name of Entity]

[Address]

Dear [Addressees]<sup>108</sup>

**Independent Assurance Report on ABC Company forecast**

We have been engaged to report on the forecast Statement of Financial Performance for the period ending 30 June 20X0 of ABC Company Limited (“ABC Company”) for inclusion in section [X] of the [describe document], dated on or about [insert date], and relating to [insert what document relates to] (“the document”). As agreed in our engagement letter dated [insert date], this report is prepared solely for distribution to users specified in section [X] of the document.

Expressions and terms defined in the document have the same meaning in this report.

*[Insert any background information relating to ABC Company and/or the proposed fundraising deemed appropriate; if any.]*

**Scope**

You have requested [Firm Name] to review the forecast prepared by ABC Company (the responsible party) included in the document. The stated basis of preparation used in the preparation of the forecast is [include a reference to, or a description of the stated basis of preparation, for example, the recognition and measurement principles contained in Australian Accounting Standards and the company’s adopted accounting policies.]

**Management’s Responsibility**

The management of ABC Company is responsible for the preparation of the forecast for the period(s) ending [insert date], including the best-estimate assumptions underlying the forecast. This includes responsibility for such internal controls as management determines are necessary to enable the preparation of a forecast that is free from material misstatement, whether due to fraud or error.

**Our Responsibility**

Our responsibility, based on our work performed is to express limited assurance on the best-estimate assumptions underlying the forecast and on the reasonableness of the forecast itself, and reasonable assurance on whether the forecast is prepared based on those assumptions and the stated basis of preparation. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

The forecast has been prepared by management and adopted by the directors in order to provide [please specify] with a guide to the potential financial performance of the ABC Company [for the period(s)/year(s) ending] [date]. There is a considerable degree of subjective judgement involved in

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

<sup>108</sup> For example, the Directors or other title, as appropriate, in the circumstances of the assurance engagement.

preparing a forecast since it relates to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the forecast since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation may be material.

Management's best-estimate assumptions on which the forecast is based relate to future event(s) and/or transaction(s) that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the ABC Company. Evidence may be available to support management's best-estimate assumptions on which the forecast is based; however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to obtain the level of assurance necessary to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly provide a lesser level of assurance on the reasonableness of management's best-estimate assumptions. The limited assurance conclusion expressed in this assurance report has been formed on the above basis.

Readers of the document should be aware of the material risks and uncertainties in relation to an investment in the ABC Company, which are detailed in the [public document], and the inherent uncertainty relating to the forecast. Accordingly, readers should have regard to the risks and sensitivities as described in section [X] of the document. The sensitivity analysis as described in section [X] of the document demonstrates the impact on the forecast of changes in key best-estimate assumptions. We express no opinion as to whether the forecast will be achieved.

The forecast has been prepared by management for [the purpose of]. We disclaim any assumption of responsibility for any reliance on this report, or on the forecast to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of management of ABC Company that all material information concerning the prospects and proposed operations of ABC Company has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

### **Conclusion**

- based on our limited assurance procedures, nothing has come to our attention which causes us to believe that management's best-estimate assumptions do not provide reasonable grounds for the preparation of the forecast Statement of Financial Performance of ABC Company [for the year(s)/period(s) ending] [insert date];
- based on our reasonable assurance procedures, the forecast is, in all material respects, prepared on the basis of management's best-estimate assumptions as described in section [X] of the document; and is presented fairly in accordance with the stated basis of preparation, being [insert a reference to, or a description of the stated basis of preparation, for example, the recognition and measurement principles contained in Australian Accounting Standards and the entity's adopted accounting policies]; and
- based on our limited assurance procedures, nothing has come to our attention which causes us to believe that the forecast itself is unreasonable.

### **Reliance on this report**

This report is addressed to the directors of ABC Company (as responsible party for ABC Company) and [specify]. *[Include any other matters that the assurance practitioner considers appropriate].*

### **Consent**

[Firm name] has consented<sup>109</sup> to the inclusion of this assurance report in the public document in the form and context in which it is included.

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<sup>109</sup> Consent is ordinarily provided in a separate consent letter, which can be referenced here.

**Liability**

*[Liability wording to be inserted for individual Firm practice.]*

**Declaration of Interest [or Disclosure of Interest]**

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

Yours faithfully

[Firm Name]

Date