

Board Meeting Agenda

8 February 2018

9.15 am to 5.00pm

Manners Street, Wellington

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
9.15 am	1	<u>Welcome and Introduction</u> Apologies: Craig Fisher			
9.20 am	2	<u>Board Management</u>			
	2.1	Interest register	Note	Paper	3
	2.2	Approval of Minutes – December 2017	Approve	Paper	8
	2.3	Action list	Note	Paper	11
	2.4	Correspondence	Note	Paper	13
	2.4.1	Submission to IESBA on Inducements	Note	Paper	14
	2.5	Communications from the NZAuASB	Note	Paper	19
	2.6	Speaking register	Note	Paper	20
	2.7	Chair’s report	Note	Verbal	-
	2.8	AUASB Chair’s report	Note	Verbal	-
	2.9	Update from CE	Note	Verbal	-
	2.10	Report from Lyn Provost	Note	Late	-
10.15am	Morning tea				
B: PUBLIC SESSION					
10.30 am	3	<u>PES 1 Compelling Reason Amendments</u>			
	3.1	Board meeting summary paper	Note	Paper	21
	3.2	Issues paper	Consider	Paper	25
11.30 pm	4	<u>Amendments PIE Definition</u>			
	4.1	Board meeting summary paper	Note	Paper	42
	4.2	Detailed analysis of submissions received	Consider	Paper	44
	4.3	Amending Standard	Approve	Paper	50
	4.4	Signing memorandum	Approve	Paper	57
	4A	<u>Supplementary Papers</u> Submissions received	Note	Paper	-
12:15 pm	Lunch				
1.00 pm	5	<u>The Audit of Service Performance Information</u>			
	5.1	Board meeting summary paper	Note	Paper	59
	5.2	Overview of comments	Consider	Paper	61
	5A	<u>Supplementary Papers</u> Submissions received	Note	Paper	-

Est. Time	Item	Topic	Objective		Page
1:45 pm	6	<u>Strategic Action Plan 2017/22</u>			
	6.1	Board meeting summary paper	Note	Paper	72
	6.2	SAP Implementation plan 2017/18 progress update	Note	Paper	73
2:15 pm	7	<u>Examination of Prospective Financial Information</u>			
	7.1	Board meeting summary paper	Note	Paper	93
	7.2	Issues paper	Consider	Paper	95
	7.3	ASAE 3450	Note	Paper	98
	7.4	APES 350	Note	Paper	212
	7.5	APES 345	Note	Paper	238
3:00 pm	<i>Afternoon tea</i>				
3:15 pm	8	<u>Modified Auditor Reports Update</u>			
	8.1	Board meeting summary paper	Note	Paper	250
	8.2	Report on findings	Consider	Paper	252
3:30 pm	9	<u>Guidance for Prescribers</u>			
	9.1	Board meeting summary paper	Note	Paper	254
3:45 pm	10	<u>Environmental Scanning</u>			
	10.1	International monitoring update	Note	Paper	256
	10.2	Domestic monitoring update	Note	Paper	270
	10.3	Academic research update	Note	Paper	271
C: NON-PUBLIC SESSION					
4.00 pm	11	<u>Long association - rotation of dual listed entities</u>			
	11.1	Board meeting summary paper	Note	Paper	273
	11.2	E-mail from CEO APESB on dual listed entities LA	Note	Paper	275
	11.3	Extract FAQs issued by APESB	Note	Paper	277
		<u>Closing items</u>			
	12	Issues to be reported to the XRB Board and NZASB		Verbal	-

Next meeting: 11 April 2018, Wellington

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 3.1

Meeting date: 8 February 2018

Subject: PES 1 (Revised) Compelling Reason Amendments

Date: 25 January 2018

Prepared by: Sharon Walker

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Objectives

1. The objective of this agenda item is:
 - For the Board to CONSIDER the Subcommittee's proposals with respect to the extant compelling reason amendments relating to other assurance engagements in Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*.

Background

2. At its October 2017 meeting, the Board considered the compelling reason amendments previously made to PES 1 (Revised). The Board confirmed that the amendments, excluding those relating to other assurance engagements in Section 291, *Independence – Other Assurance Engagements*, and throughout the PES 1 (Revised), continue to be appropriate.
3. PES 1 (Revised) applies to all practitioners who perform assurance engagements in accordance with the NZAuASB standards regardless of whether the practitioner is a member of the accountancy profession.
4. The provisions of PES 1 (Revised) apply equally to assurance engagements over financial information and non-financial information.
5. Historically, the Board has extended the independence requirements applicable to audit and review engagements to all assurance engagements. The Board was of the view that the same level of assurance is being provided, therefore the independence requirements for audits and reviews of financial statements are appropriate for all assurance engagements. This extended also to those requirements that are specific to

public interest entities. The same logic was applied in extending the NOCLAR provisions for audit and review engagements to other assurance engagements.

6. Recent research commissioned by the Board has provided valuable insight about other assurance engagements, including the types of engagements that are being carried out. In light of this new knowledge concerns have been raised within the Board that extending the provisions for audit and review engagements to other assurance engagements may have been based on an oversimplified understanding of the market. Hence, there is a concern that the compelling reason test may not be met for other assurance engagements.
7. In regard to harmonisation, we note that the Accounting and Professional Ethical Standards Board (APESB) of Australia does not extend the independence requirements for audit and review engagements to other assurance engagements. In this respect, therefore, PES 1 (Revised) is more onerous than the Australian Code of Ethics.
8. The Board established a Subcommittee¹ to further consider whether the compelling reason amendments made to the Code in respect of other assurance engagements, i.e., those amendments included throughout Section 291, *Independence – Other Assurance Engagements*, along with amendments made to Section 225, *Responding to Non-Compliance with Laws and Regulations*, continue to meet the compelling reason test (see Appendix 1 for the compelling reason test criteria).
9. The Subcommittee held two meetings in December 2017, and considered the nature and reasons for each group of extant compelling reason amendments. A detailed consideration of each of the amendments is included in the issues paper at Agenda item 3.2.

Subcommittee Considerations and Recommendations

10. Due to the nature of other assurance engagements, there is a concern that the current provisions may be inadvertently diminishing rather than improving audit quality. In the non-financial environment, there is further concern that the assurance practitioner cannot meet some of the provisions of the Code. Many assurance engagements over non-financial information are undertaken on a voluntary basis resulting in a different type of relationship. Often the assurance practitioner is dealing with lower level management rather than, for example, those charged with governance. In many cases, given the limited scope with some engagements it may not be appropriate for the assurance practitioner to access those charged with governance.
11. The Subcommittee is concerned that inclusion of the extant compelling reason changes may unintentionally result in a fatal flaw if the assurance practitioner is unable to meet the requirements of the standard. With an evolving other assurance market and the

¹ Subcommittee members are Clyde D’Souza, Ian Marshall, Marje Russ, and Rowena Sinclair.

increasing breadth of assurance over non-financial information, it is important to keep the standards at a principles level.

12. Further, there is no evidence that the compelling reason changes on other assurance engagements promote significant improvements in audit quality.
13. Significantly more onerous requirements are placed on the New Zealand assurance practitioner. Neither the IESBA nor APESB imposes these further requirements on assurance practitioners performing other assurance engagements.
14. Accordingly, based on new information about other assurance engagements, the Subcommittee believes that the extant compelling reason amendments may not meet the compelling reason test. The Subcommittee recommends amending PES 1 (Revised) for each group of compelling reason amendments, as noted in agenda item 3.2.

Matters for Consideration

15. The Board is asked to CONSIDER the Subcommittee's recommendations (identified in agenda item 3.2) regarding the extant compelling reason amendments relating to other assurance engagements in Professional and Ethical Standard 1 (Revised).

Material Presented

3.1	Board meeting summary paper
3.2	Analysis of compelling reason amendments and subcommittee recommendations

Appendix 1 - Compelling Reason Test

- The rationale for the proposed modification – either:
 - i. The international standard is not consistent with NZ regulatory arrangements; or
 - ii. The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ.
- Where the international standard is not consistent with NZ regulatory requirements, whether:
 - i. The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ; and
 - ii. The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.
- Where the international standard does not reflect principles and practices that are considered appropriate in NZ, whether:
 - i. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB;
 - ii. The proposed modification results in a standard that is clear and promotes consistent application by all practitioners (for example, excluding options that are not relevant in NZ and Australia);
 - iii. The proposed modification will promote significant improvement in audit quality in NZ (improvement in audit quality is linked to one or more of the applicable elements in the IAASB's Framework for Audit Quality);
 - iv. The relative benefits outweigh the cost (cost being compliance cost and the cost of differing from the international standard; benefit relating to audit quality);
 - v. The proposed modification does not conflict with or result in lesser requirements than the international standard;
 - vi. The proposed modification does not result in the standard being overly complex and confusing; and
 - vii. The proposed modification does not inadvertently change the meaning of the ISA wording by placing more onerous requirements on a practitioner in NZ than is necessary to meet the intent of the ISA.

Agenda Item 3.2: Issues Paper – PES 1 (Revised) Compelling Reason Amendments

1. PES 1 (Revised) is intended to apply to all those who perform assurance engagements, even if they are not part of the accountancy profession. This is a particularly important to remember when considering the requirements and guidance in the Code pertaining to the growing market of other assurance engagements. With a move toward enhanced external reporting there is likely be an expansion of reporting and disclosure of non-financial information. Our standards need to be flexible enough to allow for a variety of subject matters and a dynamic need for information.
2. In response to growing concerns that the extant compelling reason amendments relating to other assurance engagements may no longer meet compelling test, the Subcommittee has reconsidered each of the applicable extant compelling reason amendments in PES 1 (Revised):

A. Section 291

- i. Public interest entities: *Extant PES1 (Revised) paragraphs NZ291.3.1, NZ291.3.2, NZ291.27.1, NZ291.147.1, NZ291.147.2, NZ291.147.3 & NZ291.149.1*
- ii. Breaches of Section 291: *Extant PES1 (Revised) paragraphs NZ291.33 to NZ291.43*
- iii. Temporary staff assignments: *Extant PES1 (Revised) paragraph NZ291.129.1*
- iv. Fees: *Extant PES1 (Revised) paragraph NZ291.148.1*

B. Non-compliance with laws and regulations (NOCLAR)

C. Long Association

D. Other compelling reason amendments

- i. Expanding the scope of Section 291: *Extant PES1 paragraph NZ291.1*
- ii. Multiple threats: *Extant PES1 paragraph NZ291.10.1*

A. SECTION 291

A.(i) Public interest entity requirements

Compelling reason for extant amendment

The Board has previously determined that certain provisions pertaining to audit and review engagements of public interest entities should apply also to other assurance engagements performed for public interest entities. The IESBA Code (and PES 1 (Revised)) includes more stringent requirements for audit or review clients that are classified as a public interest entity (PIE).

Section 291 of the IESBA Code does not make any distinction between clients that are classified as a PIE and those that are not. PES 1 (Revised) includes a definition of public interest entity in paragraph NZ291.3.1 and proposes more stringent requirements than the IESBA Code regarding independence, including prohibiting certain services for other assurance clients if they are public interest entities.

The NZAuASB, at the time, was of the view that the threats to independence do not differ whether the subject matter of the engagement is financial statements or another subject matter. Further, it was agreed at the time that having a list of prohibitions would be clearer and appropriate to address the threat to independence and thereby promote audit quality. Accordingly, these prohibitions were considered to best serve the public interest.

*Paragraphs affected: See **Appendix 1**: NZ291.3.1, NZ291.3.2, NZ291.27.1, NZ291.147.1, NZ291.147.2, NZ291.147.3 & NZ291.149.1 (The Subcommittee recommends that these paragraphs be read in the context of [PES 1 \(Revised\)](#)).*

Subcommittee views and recommendation

As a result of the recent research commissioned by the NZAuASB there is now a more informed understanding of the types of other assurance engagements in this continually developing market. Hence, the Subcommittee is concerned that including the PIE related provisions in Section 291 could lead to the unintended consequence of producing a fatally flawed standard in that the other assurance practitioner may not be able to achieve the requirement.

For example, where an assurance client is a PIE and for two consecutive years total fees from the client represent more than 15% of the total fees received by the firm, paragraph NZ291.149.1 requires the firm to disclose this to those charged with governance and apply one of two identified safeguards to reduce the threat to an acceptable level:

- A pre-issuance review by another practitioner who is not a member of the firm; or
- A post-issuance review by another practitioner who is not a member of the firm.

In an other assurance engagement over non-financial information, the assurance practitioner may not be able to meet the requirement in paragraph NZ291.149.1. Given the scope of the engagement, it may not be appropriate for the other assurance practitioner to access those charged with governance. Additionally, in the non-financial arena, there may not be other assurance practitioners with the skills and knowledge to perform the required pre- or post-issuance review.

The Subcommittee recommends that the NZ paragraphs specific to PIEs identified above be removed from Section 291. Removal of these paragraphs does not change or reduce the need for the assurance practitioner to be independent. Rather, the assurance practitioner will continue to apply the fundamental principles of the Code and consider whether identified threats to independence can be eliminated or reduced to an acceptable level.

A.(ii) Breaches of Section 291

Compelling reason for extant amendment

The IESBA has included an abbreviated version of the provisions for addressing a breach of the independence requirements in Section 291 of the Code. The NZAuASB was of the view that there is no reason why an abbreviated framework would apply to a breach of the independence requirements when performing an assurance engagement under Section 291 compared to an audit or review engagement under Section 290. The consequences of a breach of independence are as significant regardless of the subject matter of the engagement. The NZAuASB has therefore included the same framework as described in Section 290 within Section 291.

*Paragraphs affected: See **Appendix 2**: NZ291.33-NZ291.43 (The Subcommittee recommends that these paragraphs be read in the context of [PES 1 \(Revised\)](#)).*

Subcommittee views and recommendation

Based on a more informed understanding of the types of other assurance engagements being performed, the Subcommittee is concerned that the compelling reason test may not have been met in respect of these NZ requirements.

Specifically, the Subcommittee questions whether the following specific components of the compelling reason test have been met:

- The modification will promote significant improvement in audit quality.
- The relative benefits outweigh the cost.
- The modification does not inadvertently change the meaning of the wording by placing more onerous requirements on a practitioner in NZ than is necessary to meet the intent of the Code.

The stricter requirements in Section 291 place more onerous requirements on a practitioner in NZ than is necessary to meet the intent of the IESBA Code and than is required in neighbouring markets. The Subcommittee is concerned that there may be situations where an assurance practitioner has difficulty or is unable to comply with the stricter NZ requirements.

For example, extant paragraph NZ291.40 requires the firm to discuss the breach and the action it has taken or proposes to take as soon as possible, including certain specified matters, with those charged with governance. Under the IESBA Code (paragraph 291.35), the firm is required to discuss, on a timely basis, the breach and the action to be taken or proposed with the party that engaged the firm or those charged with governance. In an assurance engagement over non-financial information, the practitioner may not have direct access to those charged with governance. Both Codes require the assurance practitioner to communicate the breach, however, the line of communication in an other assurance engagement is less prescriptive. The Subcommittee is of the view that the standard may be fatally flawed if an assurance practitioner is unable to achieve a requirement due to the circumstances of the engagement and the nature of the subject matter.

The Subcommittee recommends redrafting the breach provisions so that they are consistent with the abbreviated framework in the IESBA Code (see Appendix 3). This would create consistency of PES 1 (Revised) with the IESBA and APESB Codes, remove the more onerous requirements imposed on the other assurance practitioner in New Zealand.

A.(iii) Temporary staff assignments

Compelling reason for extant amendment

Additional guidance from Section 290 has been added to Section 291 on temporary staff assignments as it relates to assurance engagements that are not audits or reviews. This guidance emphasizes that a self-review threat may arise, regardless of whether the subject matter of the engagement is financial statements or not. It is not intended to be a prohibition and will not apply where the role is not related to the subject matter of the assurance engagement.

The NZAuASB was of the view that this guidance, which is expanded guidance on the threats and safeguards approach, is as relevant to other assurance engagements as it is to audits and reviews and therefore the addition promotes audit quality. The NZAuASB believed that the threats to independence do not differ when the subject matter of the engagements are financial statements or another subject matter. Lending staff may create a self-review threat if that staff member is later involved in providing assurance over that subject matter or that subject matter information.

Paragraphs affected: NZ291.129.1 (The Subcommittee recommends that the following paragraph be read in the context of [PES 1 \(Revised\)](#)).

NZ291.129.1 The lending of staff by a firm to an assurance client may create a self-review threat. This would be the case when, for example, a member of the assurance team has to evaluate elements of the subject matter information the member of the assurance team had prepared while with the client. Such assistance may be given, but the firm's personnel shall not be involved in:

- Providing non-assurance services that would not be permitted under this section; or
- Assuming management responsibilities in a position which would give the loaned staff significant influence over the subject matter on which the firm will express an opinion.

In all circumstances, the assurance client shall be responsible for directing and supervising the activities of the loaned staff.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Conducting an additional review of the work performed by the loaned staff;
- Not giving the loaned staff responsibility for any function or activity that the staff performed during the temporary staff assignment; or
- Not including the loaned staff as a member of the assurance team.

Subcommittee views and recommendation

It is not uncommon, particularly in the non-financial arena for there to be limited skilled resources available. Given the increased awareness of the nature, extent and likely increase in non-financial information requiring assurance, the Subcommittee recommends removing this requirement. PES 1 (Revised) applies to all those who perform assurance engagements even if they are not part of the accountancy profession. The threats and safeguards approach will continue to apply and the other assurance practitioner will consider whether there are adequate safeguards in place.

A.(iv) Fees

Compelling reason for extant amendment

The NZAuASB considers the relative size of fees is a significant threat to independence. The NZAuASB dismissed the option of establishing a prohibition on acting as the audit firm if a predefined level of annual fee income is exceeded, as may be done in other jurisdictions, as this may not address every circumstance. The NZAuASB supports the application of the conceptual framework to address the threat, with emphasis that this is a significant threat that must be appropriately managed and therefore has emphasized that it is not always possible to mitigate the threats using safeguards, and that the engagement may need to be declined. This emphasis is added to promote audit quality.

Paragraphs affected: NZ291.148.1 (The Subcommittee recommends that the following paragraph be read in the context of [PES 1 \(Revised\)](#))

NZ291.148.1 When appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the assurance practitioner shall decline or withdraw from the engagement.

Subcommittee views and recommendation

Resources with appropriate skill and knowledge may be limited in other assurance engagements over non-financial information. There may be only one or two people with the appropriate skills to perform the other

assurance engagement. While it is appropriate for the assurance practitioner to consider the threats to independence, and respond accordingly based on whether or not those threats can be eliminated or reduced to an appropriate level, the Subcommittee is of the view that such a requirement to decline or withdraw from the engagement should not be mandated in Section 291. The Subcommittee recommends removing this requirement and aligning the Code with the IESBA Code in this respect. This would also align PES 1 (Revised) more closely with the APESB Code.

B. NOCLAR

Compelling reason for extant amendment

The requirements in section 225 have been expanded to cover all assurance engagements in New Zealand, in particular reviews of financial statements. The NZAuASB considered it was in the public interest for the other assurance practitioner to respond in the same manner to identified or suspected non-compliance with laws and regulations (NOCLAR) regardless of whether they were engaged to audit or review the financial statements.

Further, in line with previous decisions, it was considered appropriate in New Zealand for all engagements to follow the same framework for dealing with NOCLAR regardless of whether the subject matter of the engagement is financial statements or some other subject specific matter. These more rigorous requirements enhance the quality of the assurance practitioner's response to NOCLAR and are more consistent with the requirements of the other assurance standards and the expectations of the users of assurance reports.

Subcommittee views and recommendations

The extension of the provisions of Section 225 to other assurance engagements, particularly those over non-financial information could result in a situation whereby the other assurance practitioner is unable to comply with the requirements. In some situations, the other assurance practitioner may not have access to those charged with governance. In other circumstances, the ability of the other assurance practitioner to communicate with the auditor may breach privacy rules and the matter may not be relevant to the audit/review engagement. The Subcommittee believes that this poses the threat that PES 1 (Revised) contains an unintentional fatal flaw and therefore does not meet the compelling reason test. Accordingly, the Subcommittee recommends redrafting section 225 to be consistent with the IESBA Code as it relates to other assurance engagements. (see **Appendix 4**).

Such redrafting would involve separating out the provisions relating to audit and review engagements and those relating to other assurance engagements into separate subsections within Section 225. PES 1 (Revised) would continue to be more stringent than the IESBA Code or the APESB Code with respect to NOCLAR in a review engagement.

The Subcommittee continues to support the decision of the Board to extend the NOCLAR requirements for audit engagements to review engagements. The Subcommittee considers that this is appropriate because the subject matter of the engagement is historical financial information; there is a framework under which historical financial information is reported; there is a legal requirement for certain entities' financial statements to be audited or reviewed.

C. LONG ASSOCIATION

Compelling reason for extant amendment

The draft Explanation of Decisions made by the NZAuASB in Finalising Amendments to Professional and Ethical Standard 1 (Revised), *Provisions Addressing the Long Association of Personnel with an Assurance Client*, (see October 2017 Board Papers, agenda item 4.5) identifies the compelling reason for aligning the long association requirements for other assurance engagements with the requirements for audits and reviews. Historically, the NZAuASB was of the view that the threats to independence do not differ whether the subject matter of the engagement is financial statements or another subject matter. The Board considered the same approach applicable to audits and reviews is applicable to other assurance clients, if they are a PIE. For this reason, the previous amendments to PES 1 (Revised) included the long association requirements that established a seven year time on, two year cooling off period.

Now that the long association PIE requirements have been amended for audits and review engagements in the IESBA Code, to be consistent with the NZAuASB's previous position, it is proposed to amend the provisions for other assurance engagements.

Stakeholders have agreed that conceptually the independence requirements should be the same for all assurance engagements, but some have questioned whether the compelling reason test is still met given the impact of the long association changes, and the majority of respondents were opposed to applying those changes across other assurance engagements.

Subcommittee views and recommendations

As noted under Part A, the Subcommittee is of the view that including the PIE related provisions in Section 291 could lead to the unintended consequence of producing a fatally flawed standard in that the assurance practitioner may not be able to achieve the requirement. In relation to the long association provisions the Board is cognisant of the significant concerns about the supply of qualified other assurance practitioners. In addition, in the non-financial arena, engagements are often ad hoc; the nature of each engagement may be different. The long association provisions are intended to deal with the familiarity threat that comes from routine engagements dealing with the same subject matter and same client personnel over an extended period of time.

Accordingly, the Subcommittee is of the view that the compelling reason test may not be met and recommends that PIE requirements not be included in PES 1 (Revised) with respect to other assurance engagements. This will result in consistency with both the IESBA and APESB Codes.

D. OTHER COMPELLING REASON AMENDMENTS

D.(i) Expanding the scope of Section 291

Compelling reason for extant amendment

PES 1 (Revised) extends the scope of Section 291 to cover all assurance engagements in relation to an offer document of an issuer in respect of historical financial information, prospective or pro-forma information or a combination of these.

The NZAuASB was of the view that this amendment is necessary to promote audit quality. The nature of assurance provided where the subject matter is prospective information included in any offer document of an issuer, and the importance of those services to the broader public interest, warrant the same level of independence as an assurance engagement over historical financial information.

Paragraphs affected: NZ291.1.1 (The Subcommittee recommends that the following paragraph be read in the

context of [PES 1 \(Revised\)](#)).

NZ291.1.1 Section 290 also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.

Subcommittee views and recommendations

The Subcommittee supports the inclusion of this paragraph in PES 1 (Revised) directing the assurance practitioner to Section 290 where assurance is provided in relation to certain offer documents. The information in an offer document whether financial or non-financial; historical, prospective or pro-forma, is intended to provide investors with information on which to base their investment decisions. Accordingly, it is appropriate that the other assurance practitioner is held to the higher independence requirements applicable to an audit engagement.

D.(ii) Multiple threats to independence

Compelling reason for extant amendment

The requirement to evaluate multiple threats to independence identified in aggregate, which individually may not be significant, is not explicitly required by the IESBA Code. The NZAuASB is of the view that there is a compelling reason to explicitly state this as it provides clarity to assurance practitioners on how to appropriately consider and evaluate the threat of independence which is one of the fundamental principles of the Code.

Paragraphs affected: NZ291.10.1 (The Subcommittee recommends that the following paragraph be read in the context of [PES 1 \(Revised\)](#)).

NZ291.10.1 Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

Subcommittee views and recommendations

The Subcommittee supports inclusion of paragraph NZ291.10.1. Multiple threats to independence are equally as important in an other assurance engagement as they are in an audit or review engagement. This requirement provides clarity to an area that is not specifically addressed in the IESBA Code. .

Appendix 1

Extracts from PES 1 (Revised) Section 291

NZ291.3.1 Section 291 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:

- Any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1¹.

NZ291.3.2 Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as if they were public interest entities because they have a large number and wide range of stakeholders or represent a higher level of risk. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;
- Size; and
- Number of employees

NZ291.27.1 When the conditions set out in paragraphs 291.21 and 291.22 are met, it is not necessary to apply the additional public interest entity requirements in paragraphs 291.112 to 291.157 that apply to assurance engagements for public interest entities.

NZ291.147.1 A firm shall not provide valuation services to an assurance client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the subject matter information of an assurance engagement.

NZ291.147.2 In the case of an assurance client that is a public interest entity, a firm shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control over the subject matter of the engagement or (b) generate information that is significant to the subject matter information on which the firm will express an opinion.

NZ291.147.3 A firm shall not provide the following recruiting services to an assurance client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to exert significant influence over the subject matter or the preparation of the subject matter information on which the firm will express an opinion:

- Searching for or seeking out candidates for such positions; and
- Undertaking reference checks of prospective candidates for such positions.

¹ XRB A1 *Application of the Accounting Standards Framework*.

NZ291.149.1 Where an assurance client is a public interest entity and for two consecutive years the total fees from the client (subject to the considerations in paragraph 291.3) represent more than 15% of the total fees received by the firm the firm shall disclose to those charged with governance of the assurance client the fact that the total of such fees represents more than 15% of the total fees received by the firm and discuss which of the safeguards below it will apply to reduce the threat to an acceptable level and apply the selected safeguard:

- Prior to the issuance of the second year's opinion another assurance practitioner who is not a member of the firm expressing the conclusion performs an engagement quality control review of that engagement ("a pre-issuance review"); or
- After the second year's opinion has been issued and before the issuance of the conclusion on the third year's opinion another assurance practitioner who is not a member of the firm performs a review of the second year's engagement that is equivalent to an engagement quality control review ("a post-issuance review").

When the total fees significantly exceed 15% the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and therefore a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Thereafter when the fees continue to exceed 15% each year the disclosure to and discussion with those charged with governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15% the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and therefore a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Appendix 2

Breaches of Section 291 - Extracts from PES 1 (Revised)

NZ291.33	A breach of a provision of this section may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. A consequence of such a breach may be that termination of the assurance engagement is necessary.
NZ291.34	When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.
NZ291.35	When a breach is identified, the firm shall consider whether there are any legal or regulatory requirements that apply with respect to the breach and, if so, shall comply with those requirements. The firm shall consider reporting the breach to a professional body, relevant regulator or oversight authority if such reporting is common practice or is expected in the particular jurisdiction.
NZ291.36	<p>When a breach is identified, the firm shall in accordance with its policies and procedures, promptly communicate the breach to the engagement partner, those with responsibility for policies and procedures relating to independence, other relevant personnel in the firm, and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action. The firm shall evaluate the significance of that breach and its impact on the firm's objectivity and ability to issue an assurance report. The significance of the breach will depend on factors such as:</p> <ul style="list-style-type: none">• The nature and duration of the breach;• The number and nature of any previous breaches with respect to the current assurance engagement;• Whether a member of the assurance team had knowledge of the interest or relationship that caused the breach;• Whether the individual who caused the breach is a member of the assurance team or another individual for whom there are independence requirements;• If the breach relates to a member of the assurance team, the role of that individual;• If the breach was caused by the provision of a professional service, the impact of that service, if any, on the subject matter or subject matter information on which the firm will express an opinion; and• The extent of the self-interest, advocacy, intimidation or other threats created by the breach.
NZ291.37	Depending upon the significance of the breach, it may be necessary to terminate the assurance engagement or it may be possible to take action that satisfactorily addresses the consequences of the breach. The firm shall determine whether such action can be taken and is appropriate in the circumstances. In making this determination the firm shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the assurance practitioner at that time, would be likely to conclude that the firm's objectivity would be compromised and therefore the firm is unable to issue an assurance report.

NZ291.38	<p>Examples of actions that the firm might consider include:</p> <ul style="list-style-type: none"> • Removing the relevant individual from the assurance team; • Conducting an additional review of the affected assurance work or re-performing that work to the extent necessary, in either case using different personnel; • Recommending that the assurance client engage another firm to review or re-perform the affected assurance work to the extent necessary; and • Where the breach relates to a non-assurance service that affects the subject matter or subject matter information, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.
NZ291.39	<p>If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall inform those charged with governance as soon as possible and take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.</p>
NZ291.40	<p>If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with those charged with governance. The firm shall discuss the breach and the action as soon as possible, unless those charged with governance have specified an alternative timing for less significant breaches. The matters to be discussed shall include:</p> <ul style="list-style-type: none"> • The significance of the breach, including its nature and duration; • How the breach occurred and how it was identified; • The action taken or proposed to be taken and the firm's rationale for why the action will satisfactorily address the consequences of the breach and enable it to issue an assurance report; • The conclusion that, in the firm's professional judgement, objectivity has not been compromised and the rationale for that conclusion; and • Any steps that the firm has taken or proposes to take to reduce or avoid the risk of further breaches occurring.
NZ291.41	<p>The firm shall communicate in writing with those charged with governance all matters discussed in accordance with paragraph NZ291.40 and obtain the concurrence of those charged with governance that action can be, or has been taken to satisfactorily address the consequences of the breach. The communication shall include a description of the firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring. If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit or review engagement, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the audit or review engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.</p>
NZ291.42	<p>If the breach occurred prior to the issuance of the previous assurance report, the firm shall comply with this section in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an assurance report in the current period. The firm shall also consider the impact of</p>

the breach, if any, on the firm's objectivity in relation to any previously issued assurance reports, and the possibility of withdrawing such assurance reports, and discuss the matter with those charged with governance.

NZ291.43 The firm shall document the breach, the action taken, key decisions made and all the matters discussed with those charged with governance and any discussions with a professional body, relevant regulator or oversight authority. When the firm continues with the assurance engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgement, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an assurance report.

Appendix 3

Extracts from the IESBA Code pertaining to breaches of Section 291

SECTION 291
INDEPENDENCE—OTHER ASSURANCE ENGAGEMENTS
Breach of a Provision of this Section
<p>291.33 When a breach of a provision of this section is identified, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach, and shall evaluate the significance of that breach and its impact on the firm’s objectivity and ability to issue an assurance report. The firm shall determine whether action can be taken that satisfactorily addresses the consequences of the breach. In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude that the firm’s objectivity would be compromised such that the firm is unable to issue an assurance report.</p>
<p>291.34 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate, and take the steps necessary to terminate the assurance engagement in compliance with an applicable legal or regulatory requirements relevant to terminating the assurance engagement.</p>
<p>291.35 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.</p>
<p>291.36 If the party that engaged the firm or those charged with governance, as appropriate, do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.</p>
<p>291.37 The firm shall document the breach, the actions taken, key decisions made and all the matters discussed with the party that engaged the firm or those charged with governance. When the firm continues with the assurance engagement, the matters to be documented shall also include the conclusion that, in the firms’ professional judgment, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an assurance report.</p>

Appendix 4

Extracts from the IESBA Code pertaining to NOCLAR for other assurance engagements

Professional Services Other Than Audits of Financial Statements
<i>Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance</i>
225.39 If a professional accountant engaged to provide a professional service other than an audit of financial statements becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the professional accountant shall seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may be about to occur.
225.40 The professional accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.
225.41 If the professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall discuss the matter with the appropriate level of management and, if the professional accountant has access to them and where appropriate, those charged with governance.
225.42 Such discussion serves to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also may prompt management or those charged with governance to investigate the matter.
225.43 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include: <ul style="list-style-type: none">• The nature and circumstances of the matter.• The individuals actually or potentially involved.• The likelihood of collusion.• The potential consequences of the matter.• Whether that level of management is able to investigate the matter and take appropriate action.
<i>Communicating the Matter to the Entity's External Auditor</i>
225.44 If the professional accountant is performing a non-audit service for an audit client of the firm, or a component of an audit client of the firm, the professional accountant shall communicate the non-compliance or suspected non-compliance within the firm, unless

prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.
225.45 If the professional accountant is performing a non-audit service for an audit client of a network firm, or a component of an audit client of a network firm, the professional accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.
<p>225.46 If the professional accountant is performing a non-audit service for a client that is not:</p> <p>(a) An audit client of the firm or a network firm; or</p> <p>(b) A component of an audit client of the firm or a network firm,</p> <p>the professional accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any.</p>
<p>225.47 Factors relevant to considering the communication in accordance with paragraphs 225.45 and 225.46 include:</p> <ul style="list-style-type: none"> • Whether doing so would be contrary to law or regulation. • Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance. • Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action. • Whether management or those charged with governance have already informed the entity's external auditor about the matter. • The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.
225.48 In all cases, the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how it should be addressed in accordance with the provisions of this section.
Considering Whether Further Action is Needed
225.49 The professional accountant shall also consider whether further action is needed in the public interest.
225.50 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

<ul style="list-style-type: none"> • The legal and regulatory framework. • The appropriateness and timeliness of the response of management and, where applicable, those charged with governance. • The urgency of the matter. • The involvement of management or those charged with governance in the matter. • The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public.
<p>225.51 Further action by the professional accountant may include:</p> <ul style="list-style-type: none"> • Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so. • Withdrawing from the engagement and the professional relationship where permitted by law or regulation.
<p>225.52 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:</p> <ul style="list-style-type: none"> • Whether doing so would be contrary to law or regulation. • Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance. • Whether the purpose of the engagement is to investigate potential non-compliance with the entity to enable it to take appropriate action.
<p>225.53 If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of the Code. When making such a disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions. The professional accountant shall also consider whether it is appropriate to inform the client of the professional accountant's intentions before disclosing the matter.</p>
<p>225.54 In exceptional circumstances, the professional accountant may become aware of actual or intended conduct that the professional accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the professional accountant shall exercise professional judgment and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure would not be considered a breach of the duty of confidentiality under Section 140 of this Code.</p>

225.55 The professional accountant may consider consulting internally, obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulatory or professional body.

Documentation

225.56 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the professional accountant is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the professional accountant considered, the judgments made and the decisions that were taken.
- How the professional accountant is satisfied that the professional accountant has fulfilled the responsibility set out in paragraph 225.49.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 4.1

Meeting date: 8 February 2018

Subject: PIE Definition

Date: 11 January 2018

Prepared by: Sharon Walker

<input checked="" type="checkbox"/>	Action Required	<input type="checkbox"/>	For Information Purposes Only
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Agenda Item Objectives

1. The objective for this agenda item is to:
 - CONSIDER the feedback received and APPROVE the revision to the definition of a PIE and the effective date;
 - APPROVE the signing memorandum.

Background

2. In May 2017, the NZAuASB issued an exposure draft ED 2017-1¹, proposing to amend the long association requirements in PES 1 (Revised)². As part of its consultation, the NZAuASB sought feedback to inform its understanding of entities that elect, but are not required, to apply the tier 1 financial reporting requirements ("voluntary PIEs").
3. Almost all submissions received in response to ED 2017-1 raised concerns that including voluntary PIEs within the New Zealand PIE definition was not in the public interest, and indicated possible unintended consequences of doing so. Respondents were strongly in favour of excluding voluntary PIEs from the New Zealand PIE definition.
4. The feedback received provided further information about the reasons why an entity may voluntarily elect to adopt the tier 1 requirements. Accordingly, the NZAuASB issued an exposure draft ED 2017-3, *Proposed Amendments to the Definition of a Public Interest Entity*, in response to the concerns expressed.

¹ ED NZAuASB 2017-1, *Proposed Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client*

² Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*

5. In response to ED 2017-3, six submissions were received. Respondents were overall supportive of the proposal to revise the PIE definition to exclude voluntary PIEs. (See agenda item 4.2 for a detailed analysis of the submissions.)

Matters for Consideration

6. The NZAuASB is asked to:
- APPROVE the amendments to the PIE definition and effective date.
 - APPROVE the draft signing memorandum

Material Presented

Agenda item 4.1	Board meeting summary paper
Agenda item 4.2	Detailed analysis of submissions received
Agenda item 4.3	Amending standard
Agenda item 4.4	Signing memorandum
Agenda item 4A	Supplementary papers

PIE Definition– Compilation and detailed analysis of responses

1. Six submissions were received in response to ED NZAuASB 2017-3, *Proposed Amendments to the Definition of a Public Interest Entity* (PIE). The following is a list of respondents:
 1. BDO
 2. Deloitte
 3. EY
 4. KPMG
 5. PWC
 6. Office of the Auditor-General (OAG)

Overarching comments

2. Generally, respondents support the proposed revision to the PIE definition to exclude those entities that voluntarily, but are not required to, report in accordance with Tier 1 accounting requirements.

Responses to specific questions

3. All respondents agreed with the proposed amendment to PES 1 (Revised) to amend the PIE definition to exclude those entities that voluntarily opt, but are not required to, report in accordance with the Tier 1 accounting requirements.
4. While supportive of the proposal to exclude voluntary PIEs from the definition of a PIE, one¹ respondent questioned the reference to Tier 1 of the accounting framework. This respondent's view was that it would be more appropriate to define a PIE as an entity that is classified as having higher public accountability by the Financial Markets Authority. The FMA has identified

¹ KPMG

entities that are of public interest and require additional oversight. Further, defining a PIE in this way is consistent with the application of ISA (NZ) 701 and ISA (NZ) 720.

5. When the NZAuASB decided to revise PES 1 to align more closely with the IESBA Code in 2012, the NZAuASB sought feedback about and deliberated on the appropriate definition of a PIE in the New Zealand context. Accordingly, the definition of a PIE was aligned with all those entities that report using the Tier 1 financial reporting requirements as per the accounting standards framework. The XRB had determined and included entities in tier 1 based on whether such an entity was considered to have public accountability. The XRB had performed a cost benefit analysis to identify tier 1 entities. Publicly accountable entities are required to apply the highest financial reporting requirements. It was therefore agreed that it was appropriate and in the public interest that the auditor of such entities apply the most stringent independence criteria.
6. Aligning the PIE definition with the financial reporting framework has the benefit of capturing all entities that are publicly accountable, whereas aligning the definition with the FMA classification of higher public accountability limits the application of the stricter public accountability requirements to only for-profit entities. Under such a definition, governmental and not for profit entities, including large charities, would likely be excluded.
7. Accordingly, we recommend to the Board that the proposed change to the definition of a PIE to remove voluntary PIEs is appropriate and that no further change is needed at this time.

Q1: Do you agree with the proposal to amend the New Zealand definition of a ‘public interest entity’ so that “voluntary” PIEs are no longer automatically caught within the public interest entity definition?

Respondent	Comment	Staff Response
BDO	As outlined in our general comments above, we agree with the NZAuASB’s proposal to remove “voluntary” PIEs from the PES 1 (Revised) definition of a PIE.	Support
Deloitte	We agree with the proposal to amend the New Zealand definition of a PIE, for the reasons discussed in ED NZAuASB 2017-3.	Support

EY	I am writing to confirm that we agree with the proposal to amend the New Zealand definition of a 'public interest entity' so that "voluntary" PIEs are no longer automatically caught within the public interest entity definition.	Support
KPMG	Yes we agree with the proposal to amend the definition of a public interest entity so that "voluntary" PIEs are no longer automatically included.	Support
KPMG	We do not agree however, that the definition refers to the criteria of Tier 1 of the accounting framework. We believe it would be more appropriate to define a PIE as an entity that is classified as having higher public accountability by the Financial Markets Authority. As a regulator of the market the Financial Markets Authority have determined which entities are of public interest and require additional oversight. This approach would not only be consistent with the approach by international regulators but that of the NZAuASB in ISA (NZ) 701 <i>Communicating Key Audit Matters in the Independent Auditor's Report</i> and ISA (NZ) 720 <i>The Auditor's Responsibilities Relating to Other Information</i> .	Outside scope of proposed changes. In addition, the FMA applies only to FMC reporting entities. The proposed suggestion excludes entities in the public/not for profit sectors. No further change recommended at this time. See paragraphs 4-7 of this section.
PWC	We support the exclusion of "voluntary" Public Interest Entities (PIEs) from the definition of a PIE in the aforementioned exposure draft. We do not believe that the amendment will negatively impact the users of financial statements of entities that have voluntarily adopted PIE disclosure requirements and are of the view that this will remove other unintended consequences that arise for relevant entities. The revised definition of a PIE more appropriate captures entities of public interest where the financial statements are expected to be widely distributed and the users may have widely variant needs.	Support

OAG	<p>We agree with the proposed changes to the definition, which remove “voluntary” PIEs from the scope of proposed changes to the long association requirements.</p> <p>The proposed changes to the PIE definition do not prevent entities from voluntarily adopting Tier 1 reporting. As a result, entities can continue to opt to report at a Tier 1 level, which provides better information for the users of their financial statements. These entities, however, will not be required to comply with the auditor rotation requirements, which could be unduly restrictive or costly for smaller entities that are choosing to report at a higher level.</p> <p>We agree that the proposed changes to the definition will help to ensure that the cost/benefit balance is maintained.</p>	Support
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|---|
| <p>8. Does the Board agree that the proposed change to the definition of a PIE, to remove voluntary PIEs, is appropriate and that no further change is needed at this time?</p> |
|---|

Q2 Do you agree with the proposed effective date? If not, why not, and what alternative do you propose?

9. The revision of the PIE definition was prompted by the proposed changes to the long association provisions. Accordingly, the proposed effective date of ED NZAuASB 2017-3 was aligned with the long association provisions².

² [ED NZAuASB 2017-1 Proposed Amendments to PES 1 \(Revised\)](#), *Provisions Addressing the Long Association of Personnel with an Assurance Client* proposed an effective date for financial statements for periods beginning on or after 15 December 2018 with early adoption permitted

10. Of the five³ respondents that answered this question, four⁴ expressed support the proposed effective date of 15 December 2018. One⁵ respondent disagreed with the proposed effective date. Rather, this respondent considered that the amended definition of PIE become effective once the amending standard is finalized. One⁶ respondent supportive of the change suggested early adoption should be permitted.

Respondent	Comment
BDO	As outlined in our general comments above, we agree with the NZAuASB's view that including "voluntary" PIEs in PES 1 (Revised) is having the unintended consequence of stopping some entities from adopting the more robust financial reporting requirements that apply to Tier 1 Reporters. Due to that, we consider that the adoption of the amended definition of a PIE should not be delayed and we consequently recommend that the amended definition of a PIE become effective after the definition is changed.
Deloitte	We also agree with the proposed effective date of 15 December 2018.
EY	We also agree with the proposed effective date of 15 December 2018, in line with the effective date of the long association provisions. However, in our view there is no compelling reason why this change should not permit early adoption.
KPMG	We agree with the proposed effective date.
OAG	We agree that the proposed effective date is appropriate and will align with the proposed changes to the long association (auditor rotation) requirements.

11. While the proposed effective date for the long association provisions permit early adoption, we do not believe that such an approach is appropriate with respect to definitions. Rather, we believe that there should only be one definition effective at a

³ BDO, Deloitte, EY, KPMG, OAG

⁴ Deloitte, EY, KPMG, OAG

⁵ BDO

⁶ EY

point in time. We do not foresee any implementation needs or unintended consequences of making the definitions effective once finalised and therefore recommend to the Board that the revised definitions be effective once approved. We believe this approach is consistent with the feedback received and will better align with the permitted early adoption of the long association provisions.

12. Does the Board agree with the revised proposed effective date?
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NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

AMENDMENTS TO THE DEFINITION OF A PUBLIC INTEREST ENTITY

This Standard was issued on xx March 2018 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on DATE.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued amend the definitions of a Public Interest Entity defined in Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*, and Professional and Ethical Standard 3 (Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*.

This Standard is effective on DATE.

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AMENDMENTS TO THE DEFINITION OF A PUBLIC INTEREST ENTITY

CONTENTS

A: INTRODUCTION

B: AMENDMENTS TO THE DEFINITIO OF A PUBLIC INTEREST ENTITY

C: EFFECTIVE DATE

A: INTRODUCTION

This document sets out amendments to the definition of a ‘public interest entity’ in Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*, and Professional and Ethical Standard 3 (Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*.

Amended paragraphs are shown with new text underlined and deleted text struck through.

Note: The footnote numbers within these amendments do not align with the actual footnote numbers of the standards that will be amended, and reference should be made to those compiled standards.

B: AMENDMENTS TO THE DEFINITION OF A PUBLIC INTEREST ENTITY

B.1 Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners*

DEFINITION

[NZ] Public interest entity Any entity that meets the Tier 1 criteria in accordance with XRB A1¹ and is not eligible to report in accordance with the accounting requirements of another tier ~~is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1.~~

¹ XRB A1 Application of the Accounting Standards Framework

NZ290.25 Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:

- Any entity that meets the Tier 1 criteria in accordance with XRB A1¹ and is not eligible to report in accordance with the accounting requirements of another tier. ~~required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE² Accounting Requirements in accordance with XRB A1³.~~

NZ291.3.1 Section 291 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:

- Any entity that meets the Tier 1 criteria in accordance with XRB A1⁴ and is not eligible to report in accordance with the accounting requirements of another tier. ~~required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1⁵.~~

B.2 Professional and Ethical Standard 3 (Amended) Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements

Definitions

¹ XRB A1 Application of the Accounting Standards Framework.

² Public Benefit Entity

³ ~~XRB A1 Application of the Accounting Standards Framework.~~

⁴ XRB A1 Application of the Accounting Standards Framework.

⁵ ~~XRB A1 Application of the Accounting Standards Framework.~~

[NZ12.7] Public interest entity - Any entity that meets the Tier 1 criteria in accordance with XRB A1 and is not eligible to report in accordance with the accounting requirements of another tier. ~~required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1.~~

C: EFFECTIVE DATE

The revised definition of a ‘public interest entity’ and related changes are effective on [insert date].

Memorandum

Date: 8 February 2018

To: Graeme Mitchell, Chairman XRB Board

From: Robert Buchanan, Chairman NZAuASB

Subject: Certificate Signing Memo: *Amendments to the Definition of a Public Interest Entity* for issue in New Zealand

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *Amendments to the Definition of a Public Interest Entity* in New Zealand.
2. The impact of the amendment is to remove, from the definition of a public interest entity (PIE), those entities that are not required, but voluntarily elect, to report in accordance with the tier 1 reporting requirements.

Background

3. As part of its consultation on proposed amendments to the long association provisions¹, the NZAuASB sought feedback to inform its understanding of entities that elect to, but are not required to apply the tier 1 financial reporting requirements ("voluntary PIEs").
4. Almost all submissions received in response to the proposed amendments to the long association provisions raised concerns that including voluntary PIEs within the New Zealand PIE definition was not in the public interest, and indicated possible unintended consequences of doing so.
5. The feedback received provided further information about the reasons why an entity may elect to adopt the tier 1 requirements.
6. Submitters were strongly in favour of excluding voluntary PIEs from the New Zealand PIE definition. Accordingly, the NZAuASB issued for public comment ED NZAuASB 2017-3, *Amendments to the Definition of a Public Interest Entity*, amending the definition of a PIE to exclude those entities that elect to report in accordance with tier 1 requirements.
7. The NZAuASB received submissions from:

¹ ED NZAuASB 2017-1 *Proposed Amendments to Professional and Ethical Standard 1 (Revised) Addressing the Long Association of Personnel with an Assurance Client*.

Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client

- BDO;
 - Deloitte;
 - EY;
 - KPMG;
 - PWC; and
 - The Office of the Auditor General.
8. Consistent with earlier feedback received, all respondents agreed with the proposed revised definition of a PIE.
9. The due process followed by the NZAuASB complied with the due process requirements established by the XRB Board and in the NZAuASB's view meets the requirements of section 12(b) of the Financial Reporting Act 2013.

Consistency with XRB Financial Reporting Strategy

10. One of the key strategic objectives set by the XRB Board for the NZAuASB is to adopt international auditing and assurance standards, as applying in New Zealand, unless there are compelling reasons not to. The IESBA has the expectation that national standard setters will adopt a definition of PIE that is appropriate for their jurisdiction. Including voluntary PIEs in the extant definition of a PIE results in the New Zealand definition being broader than in other jurisdictions. Accordingly, the NZAuASB believes that the revised definition of a PIE is consistent with the intent of the IESBA Code.

Other matters

11. There are no other matters relating to the issue of this standard that the NZAuASB considers to be pertinent or that should be drawn to your attention.

Recommendation

12. The NZAuASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachments

Amendments to the Definition of a Public Interest Entity

Robert Buchanan

Chair NZAuASB

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 5.1
Meeting date: 8 February 2018
Subject: The Audit of Service Performance Information
Date: 24 January 2018
Prepared by Peyman Momenan



Action Required



For Information Purposes Only

Agenda Item Objectives

To:

- NOTE overview of feedback received in response the Exposure Draft of proposed *ISA (NZ) xx The Audit of Service Performance Information (ED-NZAuASB 2017-2)*;

Background

1. The NZAuASB issued its exposure draft in September 2017. The consultation period closed on the 27 December 2017. Seven submissions were received from New Zealand stakeholders.
2. A summary analysis of the submissions received is included at agenda item 5.2, and the actual submissions received are available in the supplemental papers. These are included for NOTING at this stage, and any initial comments that the Board may have. A detailed analysis and recommended responses will be presented to the Board in April, after consulting with the NZAuASB subcommittee.
3. A joint NZASB/NZAuASB subcommittee meeting will be conducted in February to obtain feedback from the NZASB. We also expect a late submission from PWC and another late submission/feedback from the AUASB.

Overall impression of responses and the key areas arising from the submissions received

4. A review of the responses implies that the most contentious issue of the ED is how “entity’s service performance criteria” and “assessing suitability of criteria” are defined in the ED. Two respondents strongly disagree with the ED’s approach to the extent that they believe that this has made the standard unfit for purpose. The same respondents also criticised a lack of

alignment and sync between terminology adopted in the proposed auditing standard and corresponding financial reporting standards. Other respondents were supportive of the ED's approach but have various suggestions as how the proposed standard can improve.

5. Five out of seven respondents agreed that the proposed standard is both understandable and scalable and that it will accommodate quality audits of SPI. However, two respondents believe that the ED is long and difficult to read, overly technical, confusing and not supported by relevant practical guidance and that it will not facilitate high quality audits of SPI.
6. Most of respondents did not support a long format audit report and including additional information about the audit of SPI. However, the majority (4 of 6) supported the flexible approach to auditor report on SPI. Two respondents disagreed with this approach and suggested that the audit report on SPI must be short format and aligned with the audit report on financial information as much as possible.
7. Except for the matters highlighted in paragraphs 3 to 6, almost all respondents supported the ED for:
 - a. Issuing a separate ISA (NZ) for audit of SPI to be included in the ISAs (NZ) suite of standards.
 - b. The two-step approach for auditing SPI information.
 - c. The emphasis on concurrent nature of auditing general purpose financial reports (including SPI)
 - d. Addressing use of experts and relying on work of other auditors.
 - e. Providing appropriate and sufficient guidance about undertaking an audit of SPI (while some specific areas are mentioned that may require additional guidance including determining materiality and use of professional judgement)

Material Presented

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Summary analysis of submissions received
<i>Supplemental papers</i>	
Agenda 5A.1	The Treasury
Agenda 5A.2	Office of Auditor-General
Agenda 5A.3	BDO
Agenda 5A.4	KPMG
Agenda 5A.5	Staples Rodway
Agenda 5A.6	Chartered Accountants Australia and New Zealand
Agenda 5A.7	Mr. Chris Carson

The objective of this agenda item is:

1. To provide the Board with an overview of s respondents' comments on ED- NZAuASB 2017-2 *The Audit of Service Performance Information*, and
2. To receive the Board's initial responses to and proposed direction on these comments.

Overview of Issues Paper

This paper summarizes respondents' comments on questions included in the Exposure Draft of proposed ISA (NZ) xx *The Audit of Service Performance Information* (ED-NZAuASB 2017-2). This paper provides an overview of responses received.

Who responded to the ED

In September 2017, the Board exposed for public comment proposed ISA (NZ) xx *The Audit of Service Performance Information* (ED-NZAuASB 2017-2) with the closing date for submissions of 20 December 2017. In total, 7 comment letters have been received. All comment letters are included in Agenda items 5A-1 to 5A-7. The list of respondents is as follows:

Stakeholder group	Respondents
Audit firms	BDO, KPMG, Staples Rodway
Public Sector Auditor	Office of Auditor-General (OAG)
Professional bodies	Chartered Accountants Australia and New Zealand (CAANZ)
Individual practitioners	Mr. Chris Carson
Other	The Treasury

Also, to further accommodate stakeholders' engagement with the ED, three roundtable discussions were held in November 2017 in Christchurch, Auckland and Wellington. The feedback received during these sessions are well reflected in the comments raised in the received submissions. In fact, representatives from four¹ of the respondents to the ED also attended one of the roundtable sessions. All the respondents answered all the questions included in the ED except for the Treasury who only responded to questions 2, 6 to 8 and 12.

Analysis of Responses to Questions included in the Exposure Draft

Question 1: Do you agree with the proposed approach to develop an auditing standard rather than a standard under the umbrella of ISAE (NZ) 3000 (Revised)? If not, please explain why not, and why an alternative approach is preferable.

Staff Analysis of Respondents' Views

1. All the respondents support the proposed approach of developing a standard for service performance information (SPI) that is part of the auditing standards suite in New Zealand. The common theme in the received responses is that in New Zealand, the definition of general purpose financial reports (GPFR) of a "public benefit entity" (PBE) includes SPI and that it makes sense for an audit of such GPFR to be undertaken under a single body of standards.
2. However, one respondent² believes that such a standard must include requirements and guidance materials that are applicable only to the audit of SPI. Other considerations that apply to

¹ Being representatives from the Treasury, OAG, CAANZ and Mr. Carson.

² OAG

both audit of financial information and SPI (e.g. use of experts) should not be included in the SPI audit standard. Instead, appropriate amendments should be made to other ISA (NZ)s to accommodate an integrated approach to the audit of PBE GPFRs (e.g. ISA (NZ) 620 *Using the Work of an Auditor's Expert* should be amended for matters applicable to an audit of SPI).

Question 2: Do you agree that the ED is understandable and is scalable so as to be applicable to the audit of service performance information, regardless of the size of the entity and the tier under which it reports?

Staff Analysis of Respondents' Views

3. Five³ out of seven respondents to this question agree that the proposed standard is both understandable and scalable. However, two respondents⁴ believe that the ED is long and difficult to read, overly technical, confusing and not supported by relevant practical guidance. One of these respondents emphasises that many audit practitioners are new to auditing SPI and it is particularly important that these concerns are adequately addressed. The respondent made the following recommendations to improve the ED:

- a. The presentation of the ED can be improved by including only a small number of relatively high-level requirements that an auditor must apply to audit service performance information, and moving what is not essential to the application and other guidance section of the standard.
- b. Amending other ISA (NZ)s for matters that are not solely related to the audit of SPI (already discussed under paragraph 2 of this agenda item) to shorten the ED.

Question 3: Do you consider there are additional areas where further requirements or application material is needed that are not addressed by the ED or where further guidance is needed on how the ISAs (NZ) are to be applied to the service performance information?

Staff Analysis of Respondents' Views

4. While two respondents did not note a need for any additional areas to be covered, the other four respondents noted the following matters.

- a. One respondent⁵ comments that additional guidance is required for when auditors need to obtain evidence about services delivered by third parties (e.g. contractors or services organisations) especially when those third parties are directly responsible for collecting the service performance information that is reported by the reporting entity.
- b. This respondent also suggests that the ED needs to provide more specific guidance about determining materiality for the audit of service performance information. Guidance should include matters such as:
 - i. Characteristics of a material performance measure.
 - ii. That materiality applies both to the performance measure (i.e. whether a performance measure is material) and its measurement (i.e. misstatement in measuring a performance measure that is material to the users).
 - iii. How certain concepts in determining materiality for financial information may apply to service performance information. For example, determining materiality for SPI also involves selecting appropriate bases and applying

³ BDO, KPMG, Staples Rodway, CAANZ and Mr. Carson.

⁴ The OAG and the Treasury.

⁵ The OAG.

suitable thresholds to the selected bases. However, it is likely that each performance measure may require its own materiality base and threshold as opposed to auditing of financial information where planning materiality is calculated for the financial statements as a whole.

- iv. The minimum procedures expected to be performed over reported performance measures that are assessed as immaterial by auditors. For example, performing 'reasonableness tests' based on the auditor's knowledge of the entity.
- c. One respondent⁶ notes that although significant additional guidance is provided in relation to evaluating the suitability of the entity's service performance criteria, this matter remains an "incredibly subjective" decision and a difficult conclusion for the auditor. For example, assessing completeness of criteria and whether it needs to include negative aspects can be very difficult conclusions to make. They commented that additional guidance is unlikely to be able to address their concern.
- d. Another respondent⁷ suggests that it may be beneficial to include some of the guidance on assessing materiality (in para A17) in the requirement paragraph (para.31) of the standard. They also suggest that the qualitative characteristics that are mentioned for the first time in Para.58 of the ED should be included in an earlier section of the ED such as para.12.

Question 4: Do you believe that the ED achieves an appropriate balance between improving the consistency and quality of an audit of GPFR that includes service performance information and the potential cost of such engagements as a result of work effort required by the ED?

Staff Analysis of Respondents' Views

- 5. The respondents express mixed views on this question. Three⁸ out of six respondents agreed with the question without further comment.
- 6. One⁹ respondent agrees that the ED is in the right direction but there is significant reliance on the use of professional judgement. They believe that such reliance will result in more involvement of senior audit staff and higher audit costs. They observe that it would be useful if additional guidance or direction could be incorporated in the standard to reduce reliance on professional judgement. They suggest that the ED could refer more explicitly to the requirement included in FRS-48 *Service Performance Information* for preparers to disclose key judgements applied (by preparers) in preparing SPI. They believe such an emphasis will clarify that those charged with governance (TCWG) of the reporting entity are responsible for appropriately exercising and disclosing judgement to prepare SPI in accordance with FRS-48. The auditors' responsibility should then be discussed with reference to TCWG governance responsibility for these key judgements.
- 7. Another respondent¹⁰ believes that requiring auditors to challenge TCWG in relation to judgements over suitable criteria where suitable criteria is not straight-forward could become costly and outweigh the benefits of doing so. The respondent notes that para 36 of

⁶ KPMG.

⁷ Staples Rodway.

⁸ BDO, CAANZ and Mr. Carson.

⁹ Staples Rodway.

¹⁰ KPMG.

the proposed standard states that some entities may select performance measures that are easiest to measure and report, that do not necessarily meet the qualitative characteristics specified in the financial reporting framework. The respondent asks if auditors are required to modify their opinions in such circumstances.

8. Finally, one respondent¹¹ believes that the proposed standard does not achieve the balance between audit quality and cost, and that there is an excessive number of requirements imposed on auditors for auditing SPI. The respondent does not elaborate on the requirements perceived as excessive.

Question 5: Is the ED clear in emphasising the concurrent nature of the audit? If not, please provide paragraph references as to where you consider additional emphasis is needed.

Staff Analysis of Respondents' Views

9. All except one¹² respondent agree that the proposed standard appropriately emphasises the concurrent nature of the audit. The view of the disagreeing respondent is already discussed in paragraph 2 of this Agenda item.

Question 6: Do you agree with the definition of the entity's service performance criteria? If not, please explain why not and provide an alternative suggestion.

Staff Analysis of Respondents' Views

10. Only one¹³ respondent agrees with the definition as included in the ED. Three¹⁴ respondents seem to agree with the definition in principle but suggest minor modifications to enhance the ED's definition.
11. The remaining three¹⁵ respondents disagree with including such a definition in the standard. The common theme in these three comments is that there is a misalignment between the ED and the accounting standard (as the latter does not include any reference to criteria), and that this is confusing and may have unintended consequences. One¹⁶ respondent states that this definition focuses on performance measures rather than the flexibility in the accounting standard. Two¹⁷ respondents suggest replacing the term "criteria" with framework. One¹⁸ respondent rejects this definition because:
 - a. As para A10 of the proposed standard explicitly excludes ISAE (NZ) 3000 (Revised) from being applicable to the audit of SPI, it is not appropriate to include definitions drawn from ISAE (NZ) 3000 (Revised). Furthermore, the respondent believes that ISAE (NZ) 3000 (Revised) is more for assurance engagements that are likely to use "bespoke criteria". This is not the case with the audit of SPI with PBE FRS-48 being established criteria.
 - b. The proposed standard and PBE FRS-48 use different terminology and this is confusing. The respondent suggests that any reference to criteria is replaced with auditors being required to assess the appropriateness of an entity's reported SPI

¹¹ OAG

¹² OAG

¹³ BDO

¹⁴ KPMG, Staples Rodway and CAANZ

¹⁵ OAG, the Treasury and Mr. Carson

¹⁶ The Treasury

¹⁷ The Treasury and Mr. Carson

¹⁸ OAG

with reference to qualitative characteristics and pervasive constraints described in the PBE FRS 48.

- c. In the case of SPI, the reporting criteria consists of the requirements set out by PBE FRS-48 (the accounting standard), supplemented by how the reporting entity has interpreted and applied them at a more detailed level and within their context (e.g. by applying a performance framework or fulfilling their legislative requirements). The auditor is not required to assess whether the accounting standard's requirements are adequate, only how the entity has interpreted and applied them. In the event that the auditor's assessment indicates the entity's interpretation and application of the accounting standard is not suitable, the auditor should discuss with the entity the impact of the required changes to the interpretation and application of the accounting standard. If the interpretation and application of the accounting standard is not altered, the auditor should consider the impact on the audit report, and whether they should issue a modified conclusion. However, the term "criteria" seems to be confusing for some respondents.

Question 7: Do you agree with the general two-step approach taken in the ED, in particular, the requirements for the auditor to first evaluate the suitability of the entity's service performance criteria and then obtain sufficient and appropriate audit evidence to support the service performance information? If not, please explain why not and identify any alternative proposals.

Staff Analysis of Respondents' Views

12. All but one¹⁹ respondents support the two-step approach. The opposing respondent's main concern is that assessing suitability of criteria (step 1) may not be achievable in all circumstances. They argue that the accounting standard allows a high level of flexibility and discretion for the preparer of SPI. This may prevent auditors from being able to conclude if criteria is suitable or not. They emphasise that TCWG of the reporting entity are responsible for assessing suitability of criteria and this should not be expected from the auditors. They also maintain that when auditors opine on the GPFR, they also opine on whether the preparer's selection of reporting measures gives a true and fair view of the entity. Thus, there is no need for explicitly including a requirement to assess the suitability of criteria.
13. Another respondent²⁰ is concerned that this requirement may negatively affect the quality of SPI. They believe that the auditor should not judge the quality of the performance framework (i.e. the bridge built by the preparer of SPI to link the statement of service performance with the qualitative characteristics included in the accounting standard). Instead, they expect that the auditors should "assess the choices and trade-offs made by the entity in determining the most appropriate performance framework given their context".
14. Notwithstanding the importance of matters raised by one of the respondents, the two-step approach seems to be well received by the majority of the respondents.

Question 8: Do you consider that the ED is clear that the evaluation of the suitability of the entity's service performance criteria is an iterative process, and therefore allows for the possibility of changes to be made by the entity during the current financial reporting period or do you consider that the ED should be more explicit with respect to changes that may be made to the entity's service

¹⁹ KPMG

²⁰ The Treasury

performance criteria during the financial reporting period? If you consider further clarification is needed, please be specific as to what amendments you consider necessary.

Staff Analysis of Respondents' Views

15. All but one²¹ respondents agree that the ED is clear that the evaluation of the suitability of the entity's service performance criteria is an iterative process. One respondent recommends the proposed standard should include a statement to state that additional selection bias may be introduced where the entity makes changes to its service performance criteria during the year.
16. The disagreeing respondent believes that this matter need further clarification and suggests para 32 of the proposed standard as an appropriate place for clarification.

Question 9: Do you consider that the guidance in the ED with respect to evaluating the suitability of the entity's service performance criteria fits together well with the requirements and guidance in the proposed financial reporting standard, with respect to the selection of information and disclosure of critical judgements? If not, what recommendations do you have to enhance the way in which the proposed financial reporting standard and the proposed auditing standard work together?

Staff Analysis of Respondents' Views

17. With the exception of one²², respondents agree that the guidance included in the ED aligns with the accounting standard. One respondent²³ recommends that explicit reference to the disclosure of key judgements section in the GPFR (as required by PBE FRS-48) further accommodates a link between the auditing standard requirements and the financial reporting standard. Another respondent²⁴ notes that "qualitative characteristics" (as defined by the PBE FRS 48) and "characteristics" of suitable criteria (as applicable to the proposed auditing standard) are used interchangeably in the ED which may cause confusion. They mention paragraph 58(a)(ii) of the ED as an example for their comment. They further recommend the proposed standard to define the "pervasive constraints on information" (as defined by PBE FRS 48) so auditors are not required to refer to the financial reporting standards to find the applicable definitions. Finally, a respondent²⁵ note that more guidance is needed to address intervention logic and intermediate outcomes.
18. The disagreeing respondent²⁶ believes that the following issues mean that auditing and financial reporting standards are not well linked:
 - a. The proposed auditing standard terminology is inconsistent with the financial reporting standard.
 - b. The application guidance needs to be much more practical to be helpful for auditors inexperienced at auditing non-financial information.
19. They also believe that there is a risk that the critical judgement disclosed in the GPFR include disclosures that are not truly critical. This may detract from this section being useful to users of the GPFR. They recommend that the auditor's primary role should be to challenge entities

²¹ CAANZ

²² OAG

²³ Staples Rodway

²⁴ CAANZ

²⁵ Mr. Carson

²⁶ OAG

so that such disclosures are limited to the critical judgements only and that this should be clarified in the ED.

Question 10: Do you consider that the application material will assist an auditor in applying professional judgement to evaluate the entity's service performance criteria?

Staff Analysis of Respondents' Views

20. Two²⁷ respondents believe that the proposed standard does not provide adequate guidance in this regard. One respondent²⁸, as already explained in their response to question 9, believes that such guidance needs to be more practical. Another respondent²⁹ believes that there is not sufficient guidance in the proposed standard and believes that separate guidance may be required to supplement the standard. Other respondents agree with the question.

Question 11: Is there a need for additional application material to assist an auditor in applying professional judgement to evaluate the entity's service performance criteria? If so, please indicate what additional application material is needed.

Staff Analysis of Respondents' Views

21. Three³⁰ respondents believe that additional guidance is needed (the views of two respondents are already discussed in relation to questions 8 to 10). One³¹ respondent believes that to enhance professional scepticism, a rebuttable presumption of the risk of material misstatement relating to the selection of suitable criteria (by the preparer of GPFR) is to be included in the proposed auditing standard. They also believe that guidance should be provided about instances when such a risk could be rebutted. They suggest some additional risk factors such as:

- a. The entity is reporting SPI for the first time
- b. There has been a change in suitable criteria from the previous year
- c. There has been significant change in the entity's operations.

Question 12: Do you agree with the identified assertions? If not, please explain why not. Are there further assertions you consider should be included? Please explain.

Staff Analysis of Respondents' Views

22. Two³² respondents believe that that is no need to introduce any new assertions (in addition to assertions specified in ISA (NZ) 315) in the proposed standard. One respondent³³ argues that the introduced assertions are not assertions, but qualitative characteristics information must have. They explain that the assertion of "attributable to the entity" is embodied in the qualitative characteristic of "relevance" and "consistency" in "comparability". They further note that there is a significant degree of overlap between the "occurrence" and "attributability" assertions, and this may cause confusion. They also raise concern that no reference to "classification" assertion in the context of SPI is made in the proposed ED. They

²⁷ OAG and Mr. Carson

²⁸ OAG

²⁹ Mr. Carson

³⁰ OAG, Mr. Carson and Staples Rodway

³¹ Staples Rodway

³² OAG and CAANZ

³³ OAG

argue that preparing SPI requires numerous judgements applied by the preparer of SPI, including how the entity's activities are classified. Some of this classification may be crucial to the usefulness of SPI. The other respondent³⁴ raises concerns of a similar nature and states that it may be preferable to align all the assertions applicable to SPI to those included in ISA (NZ) 315.

23. Two³⁵ respondents are concerned about the practical implications of the identified assertions. One respondent³⁶ notes that assertions about attribution may be particularly problematic in the public sector where multiple entities contribute to influence a particular outcome without necessarily being able to quantify or evidence their impact.
24. Two³⁷ respondents agree with the identified assertions with one³⁸ recommending including the reference to these assertions in the requirements of the proposed standard (instead of the application material section). They furthermore note that ISA (NZ) 315 provides guidance about considering substance over form when evaluating assertions and suggest a similar reminder is included in the proposed standard.

Questions 13 and 14: Do you consider that the ED adequately addresses the use of experts? Do you consider that the ED adequately addresses the use of another practitioner?

Staff Analysis of Respondents' Views

25. All respondents agree that the ED adequately address the user of experts and other practitioners. It must be noted that one respondent³⁹ believes that these matters should be addressed by amending other ISAs (NZ) to include SPI specific requirements/guidance instead of addressing all these matters in the proposed standard. This matter has already been discussed in paragraph 2 of this Agenda item.

Question 15: Do you agree with the proposed scope and requirements for reporting the auditor's opinion on the GPFR? If not, please explain why not and identify any alternative proposals.

Staff Analysis of Respondents' Views

26. One respondent⁴⁰ considers that an explicit opinion on whether the criteria selected by the entity are suitable (as outlined in the EG AU9 and the ITC) should be included within the audit report. They believe that while this makes the audit report more complicated to read, it would assist users to understand the level and nature of work undertaken by the auditor, without greatly extending the audit report. All the other respondents support the proposed approach, with one respondent⁴¹ noting that the words "present fairly" included in ISA (NZ) 700 (Revised), when expressing an unmodified opinion on an entity's financial statements, are missing in the ED (in particular paragraphs 6(c) and 56).

Question 16: Do you consider that users of the auditor's report would benefit from additional information in the auditor's report? For example, information as to why the auditor considers that

³⁴ CAANZ

³⁵ The Treasury and KPGM

³⁶ The Treasury

³⁷ Mr. Carson and Staples Rodway

³⁸ Staples Rodway

³⁹ OAG

⁴⁰ Staples Rodway

⁴¹ OAG

the service performance criteria are suitable, underlying facts or findings or recommendations related to the suitability of the service performance criteria. Please explain why.

Staff Analysis of Respondents' Views

27. The majority of respondents reject the need to include additional information in the auditors' report. Some issues noted by the respondents in this relation include:
- Including additional information gives undue prominence to SPI compared to financial statements as no additional information is included about financial statements.
 - An auditor report cannot respond to all user needs and additional information is unlikely to make it more informative but more confusing and difficult to read.
28. Only one respondent⁴² believes that inclusion of additional information in the auditor's report may be beneficial to the users. They believe that this information may help the users to better understand an audit of SPI, therefore reduce the expectation gap. They believe that the auditor's responsibilities section of the report is rather generic and suggest that it may be more informative if auditors provide an overview of audit procedures undertaken over SPI that are tailored to the engagement circumstances.

Question 17: Do you agree that the ED should allow flexibility rather than being prescriptive, i.e. requiring a short form report but allowing a long form report, to enable the auditor to add additional information where that information may better inform or meet user's needs? If not, please explain why not.

Staff Analysis of Respondents' Views

29. Two respondents⁴³ disagree with allowing a long form report and to include additional information because:
- It is inconsistent with the opinion on financial statements, giving undue prominence to SPI.
 - The short format is adequate for any matter that needs to be communicated in the auditor's report to users of SPI.
30. Four respondents⁴⁴ agree with allowing a flexible approach. However, one respondent⁴⁵ is concerned that this approach may result in vastly different reporting by different auditors with such inconsistencies being confusing to users. Another respondent⁴⁶ caution that long term reporting format is not used as an alternative to modification of the auditor's opinion.

Questions 18 -20: Do you consider that it is necessary for the auditor to opine on the suitability of the entity's service performance criteria explicitly, as illustrated in paragraph 56 of this ITC? If so why? Alternatively, do you agree with the proposals in the ED, that it is not necessary to opine on the suitability of the entity's service performance criteria, but that this is implicit and is better covered in the responsibilities of those charged with governance and the responsibilities of the auditor?

⁴² Staples Rodway

⁴³ OAG and BDO

⁴⁴ KPMG, Staples Rodway, CAANZ and Mr. Carson

⁴⁵ KPMG

⁴⁶ CAANZ

Staff Analysis of Respondents' Views

31. Only one respondent⁴⁷ agrees with an explicit opinion over the suitability of the entity's PSI criteria. They believe
- a) Users will better understand the two-step opinion and that this provides clarity in relation to the two-step approach to auditing SPI.
 - b) This allows for a better platform for modifying the auditor's opinion for matters relating to the suitability of the entity's SPI criteria.
32. The other respondents reject this option and support the proposed standard approach to auditor's opinion.

Questions 21 and 22: Are there any additional factors that should be described in the description of the responsibilities of those charged with governance in the auditor's report? Are there additional factors that should be described in the auditor's responsibilities section or that would be helpful to provide a better context about the audit of the service performance information?

Staff Analysis of Respondents' Views

33. No additional factors noted by any of the respondents.

Question 23: Is the ED clear as to the implications where the auditor determines that it is necessary to modify the opinion in respect of the service performance information? If not, please expand on what clarification is needed.

Staff Analysis of Respondents' Views

34. All respondent support that the ED is clear in this regard.

Question 24: Do you agree that aligning the effective date with the proposed Tier 1 and Tier 2 PBE Accounting Requirements is appropriate?

Staff Analysis of Respondents' Views

35. All respondent agree that the adopted approach is reasonable.

Question 25: The next phase of this project will be to develop a review engagement standard. Do you have any comments as to how a review standard would differ from the proposals in this ED?

Staff Analysis of Respondents' Views

36. Two respondents⁴⁸ believe that evaluation of the suitability of the entity's SPI criteria should not be required in a review engagement. Two respondents⁴⁹ believe that a review standard should be well aligned to the proposed auditing standard.

Question 26: Do you have any other comments on ED NZAuASB 2017-2?

One respondent⁵⁰ is concerned about the reference to "Entity Information" in paragraph 8 and Appendix 1 of the ED. In their view, this type of information does not generally affect the reported performance of an entity (either financial or non-financial) and therefore, it should not be subject to

⁴⁷ Staples Rodway

⁴⁸ KPMG and Staples Rodway

⁴⁹ OAG and MR. Carson

⁵⁰ OAG

audit. Instead, it should be regarded as “Other Information”, and considered in accordance with ISA (NZ) 720 (Revised): The auditor’s responsibility relating to other information.

They note that this is a direct consequence of the accounting standards for Tiers 3 and 4 requiring entity information to be reported as part of the general purpose financial report. Their view is that this is the part of the service performance information that is set aside for management commentary and, as such, has not been prepared for audit. They suggest that the scope of the underlying accounting standards should be reviewed.

Another respondent⁵¹ notes that Paragraph 61(c) of the proposed standard requires the entity’s service performance criteria to be identified in the opinion section of the auditor’s report. In the illustrative auditor’s reports in appendix 4 of the ED, these are identified in the basis for opinion section instead. In proposed illustration 3A for the appendix of ISA (NZ) 700 this appears to be absent altogether. They also note that an illustrative auditor’s report that opines on entity information that is required to be reported by Tier 3 and 4 simple format reporting standards would also be well received, as entity information is also within the definition of financial statements.

⁵¹ CAANZ

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 6.1
Meeting date: 8 February 2018
Subject: NZAuASB Strategic Action Plan 2017/2018 Update
Date: 26 January 2018

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objectives

For the Board to:

- NOTE the update on specific actions undertaken on the NZAuASB Strategic Action Plan, as noted in the 2017/18 Implementation Plan for the period 1 July 2017 to 31 January 2018.

Background

1. At its September 2017 meeting the NZAuASB Board approved the NZAuASB Strategic Action Plan for the 2017-22 period, and the 2017/18 Implementation Plan.
2. We have included the actual actions against the planned actions for the year to date at agenda item 6.2.

Recommendations

3. We recommend that the Board:
 - NOTE the progress against the NZAuASB Strategic Action Plan for the period 1 July 2017 to 31 January 2018.

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	NZAuASB Strategic Action Plan Update

Actual actions against planned actions as at January 2017.

Specific Strategy 1: Maintain Existing Suites of Standards

<p>Key:</p> <p>Green – ongoing activity and on track</p> <p>Orange – action is work in progress and on track</p> <p>Red – no action taken</p>			
NZAuASB Action 1A.1:	Timing	2017/18 Planned Actions	2017/18 Actual Actions
Contributing to International Auditing and Assurance Standards Due Process			
<p><i>The NZAuASB will actively contribute to the "due process" activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). These activities relate to the development or amendment of international standards.</i></p> <p>The Action will comprise:</p>			
a. Ensuring assurance practitioners and relevant users of assurance reports are aware of IAASB and IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB;	Ongoing	<ul style="list-style-type: none"> Issue communiques when international documents issued Organise consultation events as appropriate 	<p>Communiques issued to highlight consultation documents:</p> <ul style="list-style-type: none"> IESBA (ED), <i>Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements</i> (Sept 2017). IESBA Fees Questionnaire (Nov 2017)
b. Responding, as appropriate, to IAASB and IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in conjunction with the Australian Auditing and Assurance Standards Board (AUASB) and Australian Accounting and Professional Ethical		<ul style="list-style-type: none"> Prepare comment letters Liaise with AUASB in accordance with established protocol before letters finalised Liaise with APESB to the 	<p>Submissions provided to the following international Boards on the following topics:</p> <ul style="list-style-type: none"> IAASB (ED), <i>Proposed International Standard on Auditing 540 (Revised), Auditing Accounting Estimates and Related Disclosures</i> (Jul 2018) (IESBA) Survey on its Strategy and Work Plan

Standards Board (APESB) where appropriate;		extent considered appropriate in each case	<p>Beyond 2018 (Jul 2018).</p> <ul style="list-style-type: none"> • IESBA (ED) – <i>Proposed Application Material Relating to Professional Scepticism and Professional Judgement</i>. (Jul 2018) • IESBA (ED), <i>Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements</i> (Dec 2017) • IESBA Fees Questionnaire (in progress)
c. Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.		<ul style="list-style-type: none"> • Participate in events in NZ or Australia (or elsewhere on an exceptional basis) 	<ul style="list-style-type: none"> • Board member and project manager attended AUASB-UNSW research event in Oct 2017

NZAuASB Action 1A.2: Maintaining New Zealand Auditing and Assurance Standards	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will amend the auditing and assurance standards (auditing standards, review engagement standards, other assurance standards) to ensure that the existing suites of standards are maintained on an on-going basis.</i></p> <p>The Action will comprise:</p>			
a. Incorporating any auditing and assurance standards, or amendments to those standards, issued by the IAASB, to achieve convergence, and including working with the AUASB to ensure any changes are appropriately harmonised; and	Ongoing	<ul style="list-style-type: none"> Amend standards following due process as documents issued by IAASB Liaise with AUASB in accordance with harmonisation process protocol 	<p>The following standards/guidance were approved and issued to NZ constituents following due process:</p> <ul style="list-style-type: none"> Auditor Reporting Additional FAQs (Oct 2017)
b. Incorporating any professional and ethical standards for assurance practitioners, or amendments to those standards, issued by IESBA, including liaising with the APESB to ensure any changes are appropriately harmonised.		<ul style="list-style-type: none"> Amend standards following due process as documents issued by IESBA Interact with APESB staff and Chair as appropriate Observe some APESB meetings to build relationships with staff and the Board Develop harmonisation process protocol with APESB Apply APESB harmonisation protocol 	<ul style="list-style-type: none"> Auditor Rotation – FAQs issued (Aug 2017) Proposed Amendments to PES 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client. (Refer agenda 11.1) Regular ongoing liaison with APESB CEO to ensure harmonisation of standards.

c. Respond as appropriate to any gaps /issues identified with the current suite of standards identified		<ul style="list-style-type: none"> Develop an appropriate response where such matters are identified. 	
NZAuASB Action 1A.3: Monitoring the Assurance Environment	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will monitor the wider assurance environment and consider the implications of any developing issues for New Zealand auditing and assurance standards.</i></p> <p>The Action will comprise:</p>			
a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate;	Ongoing	<ul style="list-style-type: none"> Passive monitoring via media, public sources, and relationship contacts Monitor modified auditor reports and report half yearly to Board 	<ul style="list-style-type: none"> Ongoing monitoring occurring. Environmental scanning report standard agenda item. Modified audit report update provided in Sept 2017. Refer agenda 8 for next report.
b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.	Ongoing	<ul style="list-style-type: none"> Take action as appropriate as matters arise during the year 	<ul style="list-style-type: none"> Issued ED Proposed Amendments to Professional and Ethical Standard 1 (Revised) <i>Definition of Public Interest Entity in Oct 2017.</i> To approve amendments to PES -1 for definition of public interest entity in Feb (refer agenda 4)
c. Tracking local and international research projects and considering the implications for the New Zealand auditing and assurance standards;	Ongoing	<ul style="list-style-type: none"> Monitor projects 	<ul style="list-style-type: none"> Ongoing monitoring occurring. Environmental scanning report standard agenda item
d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards;	Ongoing	<ul style="list-style-type: none"> Director continue to observe FMA Audit Oversight Committee meetings Analyse results of QA 	<ul style="list-style-type: none"> Ongoing attendance at Audit Oversight Committee meetings. Ongoing regular liaison with FMA on audit quality review issues

		<p>reviews for standards issues.</p> <ul style="list-style-type: none"> • Liaise with FMA on reviews conducted. • Report summary of QA findings to Board on quarterly basis 	
e. Contributing to government policy work relating to auditing and assurance standards	Ongoing	<ul style="list-style-type: none"> • Interact with MBIE and other agencies as requested by them, or as identified as necessary 	<ul style="list-style-type: none"> • Ongoing contact with MBIE regarding progress on change in mandate for AUP standard. • Ongoing contact with RBNZ regarding auditor reporting
f. Building relationships and liaising with other relevant NSSs on matters of mutual interests		<ul style="list-style-type: none"> • Consider matters raised at NSS meetings and take appropriate actions if any implications for NZ standards • Interact with APESB at NSS meetings and at least annually through Chair-Chair and senior staff level contact • Have 6-monthly phone catch up with Canadian ethics NSS chair. • Follow up NSS meeting contacts as appropriate 	<ul style="list-style-type: none"> • Ongoing and regular liaison with APESB through senior staff contact. • Chair and Senior project manager attended APESB Board meeting in August 2017.

Specific Strategy 1: Address Critical Issues

NZAuASB Action 1B.2: Developing an Assurance Standard on the Examination of Prospective financial information	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will develop an assurance standard for other assurance engagements involving the examination of prospective financial information.</i></p> <p>This action will comprise:</p>			
Developing the standard in accordance with the due process for domestic standards, ensuring harmonisation with the AUASB standard as appropriate.	Commence 2017/18 Complete 2018/19	<ul style="list-style-type: none"> Approve project plan and Commence development of standard in accordance with the agreed project plan 	<ul style="list-style-type: none"> Project plan approved at Oct 2017 meeting. Issues paper to be considered at Feb 2017 meeting (refer agenda 7)
NZAuASB Action 1B.3: Developing an Auditing Standard on Auditing Service Performance Information	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will develop an auditing standard on auditing service performance for Public Benefit Entities (PBEs).</i></p> <p>The Action will comprise:</p>			
Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Whole year	<ul style="list-style-type: none"> Develop SSP audit standard for exposure September 2017 Issue standard 	<ul style="list-style-type: none"> ED SSP audit standard issued Sept 2017 Board to note overview of comments at Feb meeting (refer agenda 5)
NZAuASB Action 1B.5: Developing guidance on the use of the XRB auditing and assurance standards and relative assurance products	Timing	2017/18 Planned Actions	2017/18 Actual Actions

<p><i>The NZAuASB will develop guidance that explain the difference between reasonable and limited assurance, as well as various assurance products that are available, and relevant standards to use, how to deal with unclear assurance requirements, and the correct terminology to use when setting assurance requirements in legislation and/or policies.</i></p> <p>The action will comprise:</p>			
Developing appropriate guidance.	Whole year.	<ul style="list-style-type: none"> Complete guidance for policy makers and legislators by 30 Dec 2017 Develop further guidance in accordance with the approved project plan. Include guidance on website Promote the guidance 	<ul style="list-style-type: none"> Guidance approved at the Oct 2017 meeting. Promotion plan of guidance to consider at Feb meeting (refer agenda 9)
NZAuASB Action 1B.6: Developing a review standard on reviewing service performance information	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will develop a review standard on reviewing service performance information for Public Benefit Entities (PBEs)</i></p> <p>The action will comprise:</p>			
Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Commence 2 nd half 2017-18 and complete 2018-19	<ul style="list-style-type: none"> Approve project plan and commence development of the engagement standard in accordance with the agreed project plan. 	Yet to commence.
NZAuASB Action 1B.7: Developing an engagement standard/guidance for smaller NFPs	Timing	2017/18 Planned Actions	2017/18 Actual Actions

<p><i>The NZAuASB will develop an engagement standard/guidance for smaller NFPs not required to have an audit or a review to better meet the needs of users, as informed by research completed in 2016-17.</i></p> <p>The action will comprise:</p>			
Developing the standard/guidance in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Commence 2 nd half of 2017-2018 and complete in 2018-2019	<ul style="list-style-type: none"> Approve project plan and commence development of the engagement standard/guidance in accordance with the agreed project plan 	Yet to commence.
<p>NZAuASB Action 1B.9:</p> <p>Developing guidance or amending NZ SRE 2410 <i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i></p>	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will consider developing guidance or amending NZ SRE 2410 for the new auditor reporting requirements.</i></p> <p>This action will comprise:</p>			
<p>Deciding whether to amend the standard or to only develop guidance, similar to guidance developed by the AUASB.</p> <p>Amending the standard in accordance with the due process for domestic standards or developing guidance similar to the AUASB guidance.</p>	Whole year.	<ul style="list-style-type: none"> Consider issues paper and decide whether to amend the standard, or to develop guidance. Approve the project plan and amend the standard and/or develop the guidance in accordance with the approved project plan 	Yet to commence.

NZAuASB Action 1B.10: Consider developing guidance for Audit Committees, similar to the audit committee practice guide recently issued in Australia.	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will consider whether to develop guidance for Audit Committees, similar to the guidance recently issued in Australia.</i></p> <p>This action will comprise:</p>			
Consider the guidance for Audit Committees recently published in Australia, and decide whether to develop similar guidance in New Zealand, in collaboration with other parties.	Commence 2 nd half of 2017-2018 and complete in 2018-2019	<ul style="list-style-type: none"> Consider issues paper and decide whether to develop similar guidance for New Zealand. If decide to develop similar guidance, approve the project plan. Develop the guidance in accordance with the approved project plan. 	Yet to commence.

Specific Strategy 2: Undertake User-Needs Research

NZAuASB Action 2.1 Researching Assurance Needs of Users of Non-Public Interest Entities Reports	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will research the assurance needs of users of assurance reports for entities that are not public interest entities (non-PIEs). The result of the research will be used as input into a future review of whether users' needs are appropriately met by the less stringent requirements for assurance for non-PIEs.</i></p> <p>This Action is an outsourced XRB Combined project and comprises:</p>			

a. Identifying the types of entities that make up the non-PIE population	Completed		
b. A literature review on user assurance needs for those types of entities	Completed		
c. An empirically-based analysis of the users of assurance reports of those types of entities and their assurance needs	to complete 1 st half 2017/18	<ul style="list-style-type: none"> To consider research findings and recommendations 	Research completed. Draft Report Tier 2 For Profit User Needs Research considered at the Dec 2017 strategy meeting.
NZAuASB Action 2.2: Obtaining a better understanding about the integrity of the application of I SAE (NZ) 3000(Revised)	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAUASB will complete its research to seek information about to what extent and how the XRB standards on assurance engagements are applied by assurance practitioners (including non-accountants) performing other assurance engagements in New Zealand. The results of the research will be used as a basis for considering enhancements to the NZAuASB's standards in the future, and to help inform efforts to influence the work of the international setting boards.</i></p> <p>The action comprises:</p>			
a. Identifying the types of assurance engagements other than audits and reviews, assurance practitioners conduct in New Zealand in accordance with or with reference to the XRB assurance standards	Completed 2016/17.		
b. Analysing to what extent and how the XRB assurance standards are applied, and whether they adequately address the assurance requirements.	To complete 1 st half of 2017/18.	<ul style="list-style-type: none"> To consider research findings and recommendations 	<ul style="list-style-type: none"> Project completed in Sept 2017. No further action required.

Specific Strategy 3: Influence the International Boards

NZAuASB Action 3.1: Building Relationships with the IAASB	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will seek to build and maintain relationships with IAASB members and staff.</i></p> <p>The Action will comprise:</p>			
a. Attending relevant meetings and events (including National Standard Setters meetings);	Ongoing	<ul style="list-style-type: none"> Director to attend IAASB meetings as Technical Advisor (TA) to Lyn Provost Chair to observe IAASB meetings in conjunction with NSS meeting or otherwise as appropriate 	<ul style="list-style-type: none"> Ongoing attendance by Director at all IAASB meetings
b. Taking opportunities to meet with IAASB members and staff;		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate 	<ul style="list-style-type: none"> Ongoing
c. Fostering relationships with Australasian representatives on the IAASB and those who are involved in relevant working groups;		<ul style="list-style-type: none"> Support Lyn Provost as IAASB member (see 3,3) and interact regularly with Fiona Campbell at IAASB meetings and on specific topics as required 	<ul style="list-style-type: none"> Lyn Provost and Director attended AUASB meeting in December together with Fiona Campbell. Ongoing liaison with Fiona Campbell at IAASB meetings

		<ul style="list-style-type: none"> • Work with AUASB at chair and staff level to influence international agenda. • Explore possibility of Regional NSS meetings 	<ul style="list-style-type: none"> • Ongoing liaison with AUASB Chair, Technical Director and staff
d. Hosting IAASB members and staff in visits to New Zealand as appropriate.		<ul style="list-style-type: none"> • Host IAASB members and staff as appropriate 	
NZAuASB Action 3.2: Increasing the International Visibility of the NZAuASB	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will take advantage of opportunities to increase its visibility in the international arena so as to illustrate its ability to contribute to the work of the IAASB in a constructive and high quality way.</i></p> <p>The Action will comprise:</p>			
a. Volunteering to present at the NSS meetings on New Zealand projects or with the AUASB on joint projects; and	Ongoing	<ul style="list-style-type: none"> • Identify possible topic to present on at NSS in Nov May 2018 	
b. Identifying an appropriate, mutually beneficial IAASB project and contributing technical resources in support of that project.	Ongoing	<ul style="list-style-type: none"> • Follow up discussions initiated with IAASB to support EER project. • Contribute resources to other mutual beneficial projects as opportunities arise, for example AUPs and scalability of ISAs for SMEs 	<ul style="list-style-type: none"> • Provided Chair of EER Taskforce with SSP audit standard and EG Au9 guidance • Senior project manager assisted IAASB staff with ISA 540 project
NZAuASB Action 3.3: Supporting Lyn Provost in her role as IAASB	Timing	2017/18 Planned Actions	2017/18 Actual Actions

member			
<p><i>The NZAuASB will provide support to Lyn Provost in her role as IAASB member.</i></p> <p>The Action will comprise:</p>			
Providing support to Lyn Provost	Ongoing	<ul style="list-style-type: none"> • Director to attend IAASB meetings as Technical Advisor (TA) to Lyn Provost • Invite Lyn Provost to Board meetings • Establish Technical Advisory Group and arrange meetings to receive input before each IAASB meeting • Arrange high-level discussions between Lyn Provost and NZAuASB when appropriate (for example, at the outset of the response process on ISA 315 review). 	<ul style="list-style-type: none"> • Ongoing attendance at all IAASB meetings • Established Technical Advisory Group. First meeting held in December, next to be held in March.
NZAuASB Action 3.4: Building Relationships with the IESBA	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will seek to build relationships with IESBA members and staff.</i></p> <p>The Action will comprise:</p>			
a. Attending relevant meetings and events (including NSS meetings);	Ongoing	<ul style="list-style-type: none"> • Senior Project Manager to attend IESBA meeting in Dec 2017 	<ul style="list-style-type: none"> • Senior project manager attended IESBA meeting in Dec

		<ul style="list-style-type: none"> Chair to observe IESBA meetings in conjunction with NSS meeting or otherwise as appropriate 	
b. Taking opportunities to meet with IESBA members and staff; and		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate Secondment of Senior Project Manager to IESBA during Dec and January. 	<ul style="list-style-type: none"> Ongoing Senior project manager completed secondment to IESBA
c. Fostering relationships with Australian representatives on the IESBA.		<ul style="list-style-type: none"> Build relationship with Australian IESBA member – Invite to a NZAuASB meeting. 	

Specific Strategy 4: Enhance Constituency Engagement and Support

NZAuASB Action 4.1: Enhancing Auditing and Assurance Standards Due Process Consultation	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will seek to enhance consultation with major assurance practitioners and user constituent groups on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents.</i></p> <p>The Action will comprise:</p>			
a. Identifying and implementing innovative, targeted consultation methods that are high value-added but relatively low-effort from the constituents' point of view; and	Ongoing	<ul style="list-style-type: none"> Continue current due process engagement methods Develop new communications & engagement approach that reflects different target groups 	<p>Ongoing.</p> <ul style="list-style-type: none"> XRBrief articles Various webinars and roundtables held on specific subjects. Survey monkey conducted with Shareholders Association on new auditor reporting. One on one interviews, video conferences and teleconferences conducted with TCWG, directors, preparers and auditors on new

		<ul style="list-style-type: none"> Implement the XRB's communication strategy for social media when developed. 	<ul style="list-style-type: none"> auditor reporting experiences. Perspective article for CAANZ on audit of SPI Oct 2017
b. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.		<ul style="list-style-type: none"> Present updates on Auditing and Assurance standards to accounting, auditing, legal, and director community audiences Promote other Topics as arise Identify and engage with relevant groups about major new exposure drafts and standards. 	<ul style="list-style-type: none"> Roundtables held on SSP ED in Auckland, Christchurch and Wellington Nov 2017 Senior project manager presented in 6 cities auditing assurance standards update Oct/Nov Director presented at Staples Rodway audit training on assurance standards and SSP ED in Dec 2017 Various meetings held with NZX about long association matters.
NZAuASB Action 4.2: Undertaking On-Going Dialogue with Auditing and Assurance Standards Constituent Groups	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will undertake an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing & assurance standards, including changes resulting from the evolving nature of the audit market.</i></p> <p>The Action will comprise:</p>			
a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB's regular meetings;	Ongoing	<ul style="list-style-type: none"> Organise regular meetings To target: <ul style="list-style-type: none"> practitioners from firms IoD representatives NZX representatives FMA representatives 	<ul style="list-style-type: none"> Rob Everett from the FMA attended meeting July 2017 Refer agenda 2.3 for planned invitations
b. Taking opportunities to meet with major constituent groups in other fora, including at	Ongoing	<ul style="list-style-type: none"> Organise seminars & 	<ul style="list-style-type: none"> Board member and senior project member presented on assurance service performance

events hosted by those groups; and		round tables <ul style="list-style-type: none"> Attend other fora Attend mid-tier forum 	at CAANZ audit seminar in Nov 2017. <ul style="list-style-type: none"> Chair participated in Panel discussion on the Future of Auditing at CAANZ audit conference Nov 2017
c. Maintaining strong working relationships at the operational level with key constituent groups.	Ongoing	<ul style="list-style-type: none"> Built relationships with key groups identified. 	<ul style="list-style-type: none"> Ongoing liaison with FMA, assurance practitioners, Charity Services, OAG, AUASB, APESB, RBNZ, IOD, Shareholders Association, CAANZ
NZAuASB Action 4.3: Improving Engagement Relating to Other Assurance Reports	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<i>The NZAuASB will seek to improve its engagement with assurance practitioners and (particularly) users of Other Assurance Reports (i.e. assurance engagements other than audits and reviews of historical financial statements).</i> The Action will comprise:			
a. Developing and maintaining a constituency database identifying these users and assurance practitioners;	Ongoing	<ul style="list-style-type: none"> Maintain database 	<ul style="list-style-type: none"> Ongoing
b. Specifically targeting this group when consulting about relevant standards using customised communication approaches.	Whole of year	<ul style="list-style-type: none"> Run targeted communications where relevant 	
NZAuASB Action 4.4: Improving Engagement with Small Assurance Practitioners	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<i>The NZAuASB will seek to improve its engagement with assurance practitioners that are small firms and sole practitioners.</i> The Action will comprise:			

a. Developing and maintaining a constituency database identifying these assurance practitioners;	Ongoing	<ul style="list-style-type: none"> Maintain database 	<ul style="list-style-type: none"> Ongoing
b. Specifically targeting this group when consulting about relevant standards using customised communication approaches.	Ongoing	<ul style="list-style-type: none"> Run targeted communications where relevant, for example webinars, speaking opportunities at SMP's in-house training, surveys. Liaise with professional bodies and raise awareness at special interest group meetings. Run targeted communications on the proposed changes to ISQC1. 	<ul style="list-style-type: none"> Newsletter issued in Oct 2017 to promote IAASB webinar on proposed revisions to Quality Control for Firms (ISQC1). Director presented at Staples Rodway audit training on assurance standards and SSP ED in Dec 2017. Director to present at BDO audit training conference in February on auditing standards update

NZAuASB Action 4.5: Promoting Understanding of Other Assurance Engagements	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will undertake activities to promote an increased understanding of the requirements of Other Assurance Standards and the engagements they apply to.</i></p> <p>The Action will comprise:</p>			
Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance practitioners and users about what comprises Other Assurance engagements and the standards that apply to those		<ul style="list-style-type: none"> Promote guidance developed on the Compliance Engagement Standard Prepare "Fact 	<ul style="list-style-type: none"> Board decided to postpone development of this guidance until after post implementation review.

engagements.		Sheet”/Guidance on other assurance engagements <ul style="list-style-type: none"> • Speaking engagements as opportunities arise • Targeted meetings with users 	
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NZAuASB Action 4.6: Promoting Greater Understanding of the Purpose of Audits and Reviews	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<i>The NZAuASB will undertake activities to promote an increased understanding by assurance users of the purpose of audit and review engagements</i> This Action will comprise:			
a. Actively encourage, facilitate and support other relevant organisations to help them educate their members on the purpose of audit and review; and	Ongoing	<ul style="list-style-type: none"> • Liaise with Charity Services, CAANZ, CPA, IoD, RBNZ, Law Society. 	<ul style="list-style-type: none"> • Promoted and distributed Guidance for funders of not-for -profits to Charity Services and other not-for profit organisations
b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate to help raise awareness of assurance users and those charged with governance in the general constituency about the purpose of audit and review engagements, with a particular emphasis on the NFP sector.	Ongoing	<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • Second journal Article for LawTalk • XRBrief article • Publish and Promote guidance developed 	<ul style="list-style-type: none"> • Published XRB brief on Guidance for funders of not-for-profits on website and promoted via newsletter, and at IAASB meetings and NSS meetings. • Distribution plan for Guidance for policy makers to be considered at agenda (9)
NZAuASB Action 4.7: Promoting Understanding of the New Auditor Reporting Requirements	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<i>The NZAuASB will undertake activities to promote an understanding of the IAASB's new auditor reporting requirements as they apply to New Zealand</i>			

<i>reporting entities.</i>			
The Action will comprise:			
a. Actively encourage, facilitate and support other relevant organisations where appropriate to help them ensure their members understand the new auditor reporting requirements; and	Whole of year	<ul style="list-style-type: none"> • Liaise with FMA, IoD, INFINZ, CAANZ (NZ), CPA, RBNZ and others. 	<ul style="list-style-type: none"> • Joint report with FMA on new auditor reporting published in Dec 2017 and distributed to wide audience via various media.
b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate to help raise awareness of assurance users and those charged with governance about the new auditor reporting requirements.		<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • Complete joint project with the FMA on the reporting of KAM, in accordance with the agreed project plan. • Promote results of joint FMA project 	<ul style="list-style-type: none"> • Completed joint project with FMA on reporting of KAM • Promoted joint KAM report: <ul style="list-style-type: none"> - distributed at the IAASB meeting, - via LinkedIn - CEO conducted Radio interview - Article in the NBR,
NZAuASB Action 4.8: Promoting Understanding of the new NOCLAR Requirements	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<i>The NZAuASB will undertake activities to promote an understanding of the new NOCLAR requirements that apply to assurance practitioners.</i>			
The action will comprise:			
a. Actively encourage, facilitate and support other relevant organisations where appropriate to help them ensure their members understand the new NOCLAR reporting requirements; and	Whole of year	<ul style="list-style-type: none"> • Liaise with IOD about doing an awareness raising session as part of the director education series. 	
b. Conducting seminars, presentations, speaking engagements and other awareness raising		<ul style="list-style-type: none"> • Include topic in annual update presentations 	

activities as appropriate that inform assurance users and those charged with governance about the new NOCLAR reporting requirements.		<ul style="list-style-type: none"> Speaking engagements as opportunities arise 	
NZAuASB Action 4.9: Promoting Understanding of the factors that Affect Audit Quality	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The focus of the NZAuASB's specific actions will be to work with other key organisations to enhance audit quality</i></p> <p>This action will comprise:</p>			
a. Actively encourage, facilitate and support other relevant organisations where appropriate to help them ensure their members understand the factors that affect audit quality, including the role of all participants in the external reporting supply chain;	Ongoing	<ul style="list-style-type: none"> Promote the audit quality framework as opportunities arise Liaise with IOD to do an awareness raising session as part of the director education series 	No specific action to date
b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance users and those charged with governance about the factors that affect audit quality		<ul style="list-style-type: none"> Speaking engagements as opportunities arise XRBrief article Promote guidance developed. 	No specific action to date.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 7.1
Meeting date: 8 February 2018
Subject: Prospective Financial Information
Date: 16 January 2018
Prepared by: Sharon Walker

<input checked="" type="checkbox"/>	Action Required	<input type="checkbox"/>	For Information Purposes Only
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Objectives

1. The objective of this agenda item is:
 - to CONSIDER and provide FEEDBACK on preliminary issues identified.

Background

2. At its October 2017 meeting, the Board approved a project proposal to develop a standard for the performance of, and reporting on, assurance over prospective financial information.
3. Local government entities are required to prepare long term plans, on a three- yearly cycle, that include prospective financial and service performance information covering the 19- year period of the plan. Such prospective information is required to be audited. Currently, LTPs are audited in accordance with the Auditor-General's auditing standards, ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits and Reviews of Historical Financial Information*, and ISAE 3400, *The Examination of Prospective Financial Information*.
4. In addition, firms are increasingly being requested to undertake assurance engagements that include prospective financial information.
5. ISAE 3400 is more than 20 years old and has not been revised in line with the conventions used in ISAE 3000 (Revised) or to reflect the IAASB's clarity drafting conventions. Accordingly, the Board supported the use of ASAE 3450, *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, issued by the AUASB as a base.

6. A reference group¹ was formed following approval of the project proposals. We have held initial discussions with individual reference group participants and have performed outreach with other practitioners to understand which standards are currently being used for assurance engagements over prospective financial information. To the extent that practitioners are familiar with ASAE 3450, we have also sought feedback on the appropriateness of its use as a base.
7. Based on initial discussions, we have identified the following matters, which are considered in more detail in the issues paper (agenda item 7.2) that require further consideration:
 - Scope and title
 - Level of assurance
 - References to external documents
 - Related ethics standards

Matters for Consideration

8. The Board is asked to CONSIDER and provide FEEDBACK on the preliminary issues identified.

Material Presented

7.1	Board meeting summary paper
7.2	Issues paper
7.3	<i>ASAE 3450, Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information</i>
7.4	<i>APES 350, Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document</i>
7.5	<i>APES 345, Reporting on Prospective Financial Information prepared in connection with a Public Document</i>

¹ The reference group comprises: Hugh Jory (OAG), Ian McLoughlin (PWC) Garth Barnes (PWC), Bruce Robertson (RB Robertson Ltd)

Agenda Item 7.2: Issues Paper – Prospective Financial Information

1. Based on initial discussions, the following matters have been identified as requiring further consideration:

- Scope and title
- Level of assurance
- References to external documents
- Related ethical standards

Scope and Title

2. ASAE 3450 applies to reporting on (a) historical financial information, pro forma historical financial information, prospective financial information and/or pro forma forecast information 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.¹
3. Much of the application material in ASAE 3450 is heavily weighted toward corporate fundraisings.
4. A primary reason for developing a standard on prospective financial information in New Zealand is to address the need in the public sector to report on the consultation document and long term plan required under the Local Government Act 2002. There are 78 of these types of engagements undertaken on a three- yearly cycle. By comparison, there was one IPO in New Zealand during 2017².
5. ASAE 3450 addresses assurance over financial information. In relation to the local government reports, the assurance practitioner reports on both financial and non-financial (service performance) information.
6. Given the expected use of a standard on prospective information in New Zealand, we recommend that the scope of such standard should include both financial and non-financial information, additional guidance specific to public sector engagements should be added where necessary, and the title should reflect the use in New Zealand (i.e., less focus on corporate fundraising).

7. Does the Board support:

- Broadening the scope to include both financial and non-financial information?
- Adding guidance specific to public sector engagements, where necessary?
- Changing the title to better reflect the use of the standard in NZ?

Level of assurance

8. ASAE 3450 permits different levels of assurance on the different types of financial information³:
 - Historical financial information – limited or reasonable assurance
 - Pro forma historical financial information – limited or reasonable assurance

¹ ASAE 3450, paragraph 1

² Oceania Healthcare Ltd

³ ASAE 3450, paragraph 8

- Prospective financial information (element 1 – assumptions) – limited assurance
 - Prospective financial information (element 2 – basis of preparation) – limited or reasonable assurance
 - Prospective financial information (element 3 – overall) – limited assurance
9. Practitioners spoken to support the level of assurance (i.e., limited assurance) over prospective financial information in an offer document.
10. Reports on council long term plans are reasonable assurance reports.

“In my opinion...

- The information and assumptions underlying the forecast information in the plan are reasonable;...”⁴
11. We note the exposure draft of ASAE 3450 provided for both a limited and reasonable assurance conclusion with respect to prospective financial information. In response to comments on exposure this was restricted to limited assurance in finalising the standard. Reasons include:
- Inherent uncertainty around best estimate assumptions being achieved.
 - Current market practice which does not support providing reasonable assurance around any elements of the prospective financial information that contain best estimate assumptions given the inherent uncertainty.
 - Inconsistent guidance within the proposed standard which suggests that the practitioner would ordinarily express a limited assurance conclusion as a positive form of assurance that the best estimate assumptions will be achieved cannot be given.
12. Extant ISAE 3400⁵ defaults to a limited assurance when reporting on the reasonableness of management’s assumptions but notes, “when in the auditor’s judgement an appropriate level of satisfaction has been obtained, the auditor is not precluded from expressing positive assurance regarding the assumptions.”
13. We recommend the Board explore the concept of permitting the practitioner to issue a reasonable assurance report when the practitioner believes that sufficient appropriate evidence has been obtained, consistent with the current practice in local government reporting in New Zealand.

14. Does the Board support the issuance of a reasonable assurance conclusion on prospective financial information when the practitioner believes that sufficient appropriate evidence has been obtained?

References to external documents

15. Throughout ASAE 3450 there is extensive referencing to guidance outside the AUASB’s suite of standards for which there may be no equivalent guidance in New Zealand, for example, references to the Australian Securities and Investments Commission’s regulatory guides. Some of these references are

⁴ Extract from the Independent auditor’s report on Wellington City Council’s 2015-25 long-term plan.

⁵ ISAE 3400, *The Examination of Prospective Financial Information*, paragraph 9

informational; others are to specific areas of guidance.

16. We recommend checking each reference to determine whether additional guidance needs to be included in the standard or whether there are applicable external references to be referred to.

17. Does the Board support including references or adding guidance within the standard, where necessary?

Related ethical standards

18. The Accounting Professional and Ethical Standards Board (APESB) has issued two ethical standards that might be relevant:

- APES 350, *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document*, which goes hand in hand with ASAE 3450; and
- APES 345, *Reporting on Prospective Financial Information prepared in connection with a Public Document*.

19. APES 350 (available at agenda item 7.4 for noting) establishes standards for members in public practice in the provision of services to a client which comprise participating in and/or reporting to a due diligence committee, as a member, observer, or reporting person in connection with a public offering.

20. APES 350 is linked to the Corporations Act 2001 and keys off certain requirements of that Act. It sets out requirements addressing

- the roles and obligations of the practitioner, (i.e., what the assurance practitioner/investigating accountant would and would not perform on an IPO and ensures that the investigating accountant is not required to sign off items that are beyond their expertise);
- documentation;
- reporting; and
- fees.

21. APES 345 (available at agenda item 7.5 for noting) establishes the standards for members in public practice in the provision of quality and ethical professional services in respect of an engagement in which a member in public practice prepares a report on or in connection with prospective financial information where such prospective information or part thereof and the related report are included in a public document.

22. We recommend that staff explore further whether equivalent standards are needed in New Zealand (including whether such standards are within the mandate of the Board) and bring a paper to the Board at a future meeting.

23. Does the Board agree?

ASAE 3450
(November 2012)

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

Auditing and Assurance Standards Board

Obtaining a Copy of this Standard on Assurance Engagements

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

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PREFACE

Reasons for Issuing ASAE 3450

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

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B of the ASIC Act, the AUASB may formulate assurance standards for other purposes.

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.

AUTHORITY STATEMENT

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

This Standard on Assurance Engagements is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied.

Dated: 26 November 2012

M H Kelsall
Chairman - 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 1 July 2013.

Introduction

Scope of this Standard on Assurance Engagements

3. This ASAE deals with the responsibilities of the assurance practitioner when undertaking an engagement to report on the responsible party's preparation of 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 judgement¹ 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.² A reference in the requirements to “~~fi~~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.

¹ 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”.

² 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 stated³.
 - (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 adjustments⁴ 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, fundraisings⁵, takeovers, schemes of arrangement or other corporate restructures.
 - (f) Different elements of prospective financial information means:
 - (i) the assumptions used in the preparation of the prospective financial information; (element 1)

³ See paragraph 15(m) for a definition of ~~hypothetical assumptions~~.

⁴ See paragraph 15(v) for a definition of ~~pro forma adjustments~~.

⁵ See Section 700 of the *Corporations Act 2001*.

- (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.⁶
- (m) Hypothetical assumptions⁷ 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.⁸
- (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 of the assurance engagement. An example of a limited assurance engagement is a review.

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

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

⁸ See paragraph 15(a) for a definition of ~~assumptions~~.

- (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).⁹
- (q) Material inconsistency means information within the document that materially contradicts the financial information that is the subject of the assurance report.¹⁰
- (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.¹¹
- (s) Multiple types of financial information mean financial information that involves more than one type.¹²
- (t) Non-IFRS financial information¹³ is financial information that is presented other than in accordance with all relevant accounting standards.¹⁴
- (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 information¹⁵ (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 Accounting Standards. It is subject to the assumptions inherent in the responsible party’s stated basis of preparation.

⁹ 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.

¹⁰ 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.

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

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

¹³ 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.

¹⁴ Accounting Standards are ordinarily those issued by the Australian Accounting Standards Board.

¹⁵ See paragraph 14(d) for a definition of ~~—base financial information.”~~

- (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 projection¹⁶ 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*.¹⁷
 - (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.¹⁸
 - (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.¹⁹
 - (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*.²⁰
 - (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.
- (aa) Reasonable grounds means, in relation to a statement made, that there must be a sufficient objective foundation for that statement.²¹

¹⁶ 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.

¹⁷ See Sections 710, 711, and 713 of the *Corporations Act 2001*.

¹⁸ See Section 712 of the *Corporations Act 2001*.

¹⁹ See Sections 705 and 721 of the *Corporations Act 2001*.

²⁰ 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.

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

- (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
 - (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, and implement quality control procedures that are applicable to the individual engagement in accordance with ASA 102.²²

Quality Control

19. The assurance practitioner shall establish and maintain a system of quality control in accordance with ASQC 1.²³

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 requirement²⁴ 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)

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;

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

²³ See ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

²⁴ 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.

- (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;^{25,26}
 - (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 document²⁷ 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;²⁸ 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.

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;

²⁵ 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.

²⁶ 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.

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

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

- (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;²⁹ or
 - (vi) the assurance engagement does not have a rational purpose;³⁰
- (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;
 - (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

²⁹ 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.

³⁰ See ASAE 3000, paragraph 17(b)(v), for further guidance.

- 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 be 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;³¹ 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:
- (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.³² (Ref: Para. A13)

³¹ 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.

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;³³
 - (g) assessing assurance engagement risk;³⁴ (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.³⁵
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.

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:

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

³³ 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.

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

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

- (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:
- (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,³⁶ source, and nature;³⁷
 - (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;

³⁶ For example, historical financial information, pro forma historical financial information, prospective financial information, or pro forma forecast.

³⁷ For example, its relevance, completeness, reliability and understandability.

- (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;³⁸ 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;³⁹
- (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;
- (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.

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

³⁹ 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.

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,⁴⁰ including the responsible party's expert⁴¹ 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;
 - (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.

⁴⁰ 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.

⁴¹ 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.

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;
 - (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 parties⁴² 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:
- (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;⁴³ and
 - (d) document the key aspects of the oral representation.

⁴² 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.

⁴³ 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.

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.
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 evidence⁴⁴ 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
 - (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 paragraph⁴⁵ that describes the material inconsistency and/or misstatement of fact; and/or

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

⁴⁵ 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.

- (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.⁴⁶ (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.⁴⁷
- 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.

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.

⁴⁶ 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.

⁴⁷ 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.

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.⁴⁸ (Ref: Para. A62)

Modified Conclusion

84. The assurance practitioner shall, subject to paragraph 85 of this ASAE, express a modified conclusion⁴⁹ 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))
 - (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 concern⁵⁰, 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)

⁴⁸ 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.

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

⁵⁰ See ASA 570 for further guidance.

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 Control

92. The assurance practitioner shall include in the engagement documentation:
 - (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 control requirements within the firm;⁵¹ and
 - (e) the nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

⁵¹ See ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance 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 paragraph⁵² 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

⁵² 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.

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;⁵³ 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
 - ◆ 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

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

- (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.⁵⁴

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;⁵⁵ 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
 - (b) lack sufficient appropriate evidence;
- the assurance practitioner shall discuss this with the responsible party, and:

⁵⁴ See RG 230 for further guidance.

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

- (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:
 - ◆ 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:⁵⁶
 - ◆ provide reasonable grounds⁵⁷ 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.⁵⁸

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

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

⁵⁷ 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.

⁵⁸ 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;

- (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.⁵⁹

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,⁶⁰ and by:
 - (i) enquiring of the responsible party the reasons for the choice of time period;

⁵⁹ See RG 170, for further guidance.

⁶⁰ 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 assumptions⁶¹ 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

⁶¹ See RG 170.

- ◆ 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 paragraph⁶² 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.

⁶² 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.⁶³

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.

⁶³ 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

- (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;⁶⁴
- (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 experts⁶⁵ 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;⁶⁶
 - (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:

⁶⁴ See RG 230 for further guidance.

⁶⁵ 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.

⁶⁶ 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 engagement⁶⁷ 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), and the requirements of applicable law, regulation and professional standards⁶⁸ 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;⁶⁹
 - (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);⁷⁰
 - (e) comfort letter engagements performed by an assurance practitioner who is also the appointed auditor of the entity;⁷¹ 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

⁶⁷ 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).

⁶⁸ See for example APES 110 *Code of Ethics for Professional Accountants* (Reissued December 2010, as amended) issued by the Accounting Professional and Ethical Standards Board for the assurance practitioners professional responsibilities in these circumstances.

⁶⁹ 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.

⁷⁰ See ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

⁷¹ 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*,⁷² 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;

⁷² 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);⁷³
 - (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*,⁷⁴ 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.⁷⁵

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;
- (c) preventing access to all relevant documents or persons requested; and/or

⁷³ See for example, APES 350, for further guidance.

⁷⁴ See Section 716 of the *Corporations Act 2001*.

⁷⁵ See ASIC RG 107 *Electronic Prospectuses*.

- (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.⁷⁶ (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:
- (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;

⁷⁶ 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.

- (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 materiality⁷⁷ 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.

⁷⁷ 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))

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.⁷⁸
- 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

⁷⁸ 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:⁷⁹
- (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.

⁷⁹ 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.⁸⁰
- 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;

⁸⁰ 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. Sampling⁸¹ 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 misstatements⁸² would be clearly trivial and would not need to be accumulated because the assurance practitioner

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

⁸² 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.⁸³ 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;

⁸³ 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 assessment⁸⁴ 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

⁸⁴ 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.⁸⁵ 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.

⁸⁵ 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.⁸⁶ 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.

⁸⁶ See Section 716 of the *Corporations Act 2001*.

Documentation (Ref: Para. 91)

- A70. Sufficient appropriate documentation⁸⁷ 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.

⁸⁷ 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:

* 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;

- (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);⁸⁸
 - (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))

⁸⁸ 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;
 - (iii) whether the source has been prepared in accordance with the entity's accounting policies;

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

- (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 (~~—ABC~~) 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.

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.

- 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,

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]⁸⁹

[The Addressees]

ABC Company Limited

[Address]

Dear [Addressees]⁹⁰

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]⁹¹ 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*.

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

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

⁹¹ 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];

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

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 consented⁹³ 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]⁹⁴ other than in [state interest] for which normal professional fees will be received.

Financial Services Guide

[If applicable, insert wording.]

Yours faithfully

[Firm Name]⁹⁵

Date

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

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

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

⁹⁵ 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]⁹⁶

The [Addressees]

ABC Company Limited

Address]

Dear [Addressees]⁹⁷

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 (–~~pr~~ forma forecast”) [for the period ending] 30 June 20X0 of ABC Company for inclusion in the [public document]⁹⁸ 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]⁹⁹ 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

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

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

⁹⁸ Specify the type of the public document.

⁹⁹ 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:

- 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].¹⁰⁰ 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

¹⁰⁰ 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].~~"

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

Consent

[Firm name] has consented¹⁰¹ 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]¹⁰² other than in [state interest] for which normal professional fees will be received.

Financial Services Guide

[If applicable, insert wording.]

Yours faithfully

[Firm Name]¹⁰³

Date

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

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

¹⁰³ 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]¹⁰⁴

The [Addressees]

[Name of Entity]

[Address]

Dear [Addressees]¹⁰⁵

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 an reasonable assurance engagement conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that

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

¹⁰⁵ 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 an 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 consented¹⁰⁶ 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

¹⁰⁶ 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]¹⁰⁷

The [Addressees]

[Name of Entity]

[Address]

Dear [Addressees]¹⁰⁸

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

¹⁰⁷ The date of both the hard copy and electronic version of the report should be the same. See ASIC's RG 107.

¹⁰⁸ 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 consented¹⁰⁹ 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.]

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

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

APES 350 Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document

[Supersedes APES 350 Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document issued in December 2009]

Revised March 2011

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Appendix 2: Materiality Letter

Appendix 3: Summary of revisions to the previous APES 350 (Issued December 2009)

1. Scope and application

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional standard APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* (**the Standard**), which is effective for Engagements commencing on or after 1 May 2011. Earlier adoption of this Standard is permitted.
- 1.2 APES 350 sets the standards for Members in Public Practice in the provision of quality and ethical Professional Services to a Client which comprise participating in and/or reporting to a Due Diligence Committee, as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document. The mandatory requirements of this Standard are in **bold type (black lettering)**, preceded or followed by discussion or explanations in normal type (grey lettering). APES 350 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.3 Members in Public Practice in Australia shall follow the mandatory requirements of APES 350 when they provide Professional Services to a Client, which comprise participating in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document issued in Australia. Where the transaction to which the Public Document relates is to be undertaken in whole or in part in a jurisdiction other than Australia or where the laws and/or regulations of a jurisdiction other than Australia apply to the Public Document, Members shall follow this Standard, except to the extent that this would cause a Member to breach the laws and/or regulations of such other jurisdiction.**
- 1.4 Members in Public Practice practising outside of Australia shall follow the mandatory requirements of this Standard to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**
- 1.5 Members in Public Practice shall be familiar with relevant Professional Standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.6 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.7 All references to Professional Standards are references to those provisions as amended from time to time.
- 1.8 In applying the requirements outlined in APES 350, Members in Public Practice should be guided not merely by the words but also by the spirit of this Standard and the Code.
- 1.9 The Standard should be applied to the extent practicable where a Member in Public Practice provides Professional Services to a Client which comprise participating in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person in connection with an Engagement which is not in connection with a Public Document.
- 1.10 A Member in Public Practice may provide Professional Services to a Client in connection with a Due Diligence Committee in the role of a:
- DDC Member;
 - DDC Member and Reporting Person;
 - DDC Observer;
 - DDC Observer and Reporting Person;
 - Reporting Person.

These roles are defined in paragraph 2 and discussed in paragraph 5.1.

2. Definitions

For the purpose of this Standard:

Acceptable Level means a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the Member in Public Practice at that time, that compliance with the fundamental principles of the Code is not compromised.

Assurance Client means the responsible party that is the person (or persons) who:

- (a) In a direct reporting Engagement, is responsible for the subject matter; or
- (b) In an assertion-based Engagement, is responsible for the subject matter information and may be responsible for the subject matter.

Assurance Engagement means an Engagement in which a Member in Public Practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

This includes an Engagement in accordance with the *Framework for Assurance Engagements* issued by the Auditing and Assurance Standards Board (AUASB) or in accordance with specific relevant standards, such as International Standards on Auditing for Assurance Engagements.

Audit Client means an entity in respect of which a Firm conducts an Audit Engagement. When the Client is a Listed Entity, Audit Client will always include its related entities. When the Audit Client is not a Listed Entity, Audit Client includes those related entities over which the Client has direct or indirect control.

Audit Engagement means a reasonable assurance Engagement in which a Member in Public Practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an Engagement conducted in accordance with Auditing and Assurance Standards. This includes a statutory audit, which is an audit required by legislation or other regulation such as the *Corporations Act 2001*.

Auditing and Assurance Standards means:

- In relation to reports for reporting periods commencing on or after 1 July 2006:
 - the AUASB Standards, as defined in the *Foreword to AUASB Pronouncements*, issued by the AUASB, and operative from the date specified in each standard; and
 - those standards issued by the AuASB which have not yet been revised and reissued (whether as standards or as guidance) by the AUASB, to the extent that they are not inconsistent with the AUASB standards.
- In relation to reports for reporting periods commencing prior to 1 July 2006, the Auditing and Assurance Standards issued by the AuASB on behalf of CPA Australia and the Institute of Chartered Accountants in Australia.

AuASB means the Auditing and Assurance Standards Board which issued Australian Auditing and Assurance Standards up to 30 June 2004, under the auspices of the Australian Accounting Research Foundation, a joint venture of CPA Australia and the Institute of Chartered Accountants in Australia.

AUASB means the Australian statutory body called the Auditing and Assurance Standards Board established under section 227A of the *Australian Securities and Investments Commission Act 2001*.

Australian Financial Services Licence means a licence to provide financial services under Chapter 7 of the *Corporations Act 2001*.

Client means an individual, firm, entity or organisation to whom or to which Professional Services are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.

Code means APES 110 *Code of Ethics for Professional Accountants*.

Contingent Fee means a fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established by a court or other public authority is not a Contingent Fee.

DDC Member means a Member in Public Practice who is engaged by a Client to provide Professional Services as a member of a Due Diligence Committee and who will participate in the Due Diligence Committee's decisions, sign all the collective reports and other documents issued by the Due Diligence Committee and in most instances will prepare a Due Diligence Sign-Off.

DDC Observer means a Member in Public Practice who is engaged by a Client to provide Professional Services as an observer to a Due Diligence Committee but who will not participate as a DDC Member and will not sign or be a party to any collective reports or documents issued by the Due Diligence Committee. As an observer a Member will:

- attend one or more meetings of the Due Diligence Committee but not undertake any due diligence enquiries or have reporting obligations to the Client or to the Due Diligence Committee; or
- attend one or more meetings of the Due Diligence Committee and undertake due diligence enquiries in relation to Financial Information and/or Other Specific Information and provide a report to the Client and/or the Due Diligence Committee. In certain circumstances, depending on factors such as timing and the scope of the Engagement, the Member may prepare a Due Diligence Sign-Off.

Disclosure Document means a disclosure document as defined in the *Corporations Act 2001*.

Due Diligence Committee means a committee established by Those Charged with Governance of a Client to co-ordinate and assist with the due diligence process to be undertaken by the Client in relation to a Public Document.

Due Diligence Planning Memorandum means the document prepared on behalf of a Client and signed by members of its Due Diligence Committee which sets out the due diligence process and reporting responsibilities. This document also specifies the respective individual and collective responsibilities of the participants in the due diligence process, including those of the members of the Due Diligence Committee.

Due Diligence Sign-Off means the letter or other appropriate written communication issued by a DDC Member or in certain cases a DDC Observer in connection with a Public Document when reporting to a Client and its Due Diligence Committee on the conclusions arising from the procedures conducted by a DDC Member or DDC Observer on Financial Information and/or Other Specific Information. (A form of Due Diligence Sign-Off which complies with the requirements of this Standard is set out in Appendix 1).

Engagement means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of Professional Services by a Member in Public Practice. However, consultations with a prospective Client prior to such agreement are not part of an Engagement.

Engagement Document means the document (i.e. letter, agreement or any other appropriate means) in which the Terms of Engagement are specified in a written form.

Engagement Team means all personnel performing an Engagement, including any experts contracted by the Firm in connection with that Engagement.

Financial Information means historical, pro forma or prospective financial information or some combination of these as specified in the Engagement Document.

Firm means (a) A sole practitioner, partnership, corporation or other entity of professional accountants;
(b) An entity that controls such parties through ownership, management or other means;
(c) An entity controlled by such parties through ownership, management or other means; or
(d) An Auditor-General's office or department.

Independence means:

- (a) Independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgement, allowing an individual to act with integrity, and exercise objectivity and professional scepticism; and
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a Firm's, or a member of the Engagement Team's integrity, objectivity or professional scepticism had been compromised.

Listed Entity means an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.

Managerial Employee means an employee who acts in a managerial capacity within the structure of the Firm, including providing oversight, in the provision of services to Clients.

Materiality Letter means the letter or other appropriate written communication issued by a Member in Public Practice to a Client and its Due Diligence Committee that provides materiality guidance prepared with reference to applicable Auditing and Assurance Standards.

Member means a member of a professional body that has adopted this Standard as applicable to their membership as defined by that professional body.

Member in Public Practice means a Member, irrespective of functional classification (e.g. audit, tax, or consulting) in a Firm that provides Professional Services. The term is also used to refer to a Firm of Members in Public Practice and means a practice entity as defined by the applicable professional body.

Network means a larger structure:

- (a) That is aimed at co-operation, and
- (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common branch-name, or a significant part of professional resources.

Network Firm means a Firm or entity that belongs to a Network.

Other Specific Information means specifically identified information, other than Financial Information, in a Public Document, which has been the subject of procedures performed by a Member in Public Practice as specified in the Engagement Document. Examples include specific tax-related information, environmental matters, and information technology matters.

Partner means any individual with authority to bind the Firm with respect to the performance of an Engagement.

Product Disclosure Statement means a statement as defined in Chapter 7 of the *Corporations Act 2001*.

Professional Services means services requiring accountancy or related skills performed by a Member in Public Practice including accounting, auditing, taxation, management consulting and financial management services.

Professional Standards means all standards issued by Accounting Professional & Ethical Standards Board Limited and all professional and ethical requirements of the applicable professional body.

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*.

Reporting Person means a Member in Public Practice who is engaged by a Client to provide Professional Services and report to the Client and its Due Diligence Committee on a specific issue or area of enquiry, which has been identified by the Client or the Due Diligence Committee. A Reporting Person may also be a DDC Member or DDC Observer.

Terms of Engagement means the terms and conditions that are agreed between the Client and the Member in Public Practice for the Engagement.

Those Charged with Governance includes those persons accountable for ensuring that the entity achieves its objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and reporting to interested parties. Those Charged with Governance includes management only when it performs such functions.

3. Fundamental responsibilities of Members in Public Practice

- 3.1** A Member in Public Practice providing Professional Services to a Client which comprise participating in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document shall comply with Section 100 *Introduction and Fundamental Principles* of the Code and relevant law.
- 3.2** A Member in Public Practice providing Professional Services to a Client which comprise participating in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document shall comply with Section 220 *Conflict of Interest* and Section 280 *Objectivity – All Services* of the Code.

Public interest

- 3.3** In accordance with Section 100 *Introduction and Fundamental Principles* of the Code, a Member in Public Practice shall observe and comply with the Member's public interest obligations when the Member provides Professional Services to a Client which comprise participating in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document.

Professional appointments

- 3.4** A Member in Public Practice who is invited by a Client or potential Client to provide Professional Services which comprise participating in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document shall comply with the requirements of Section 210 *Professional Appointment* of the Code.
- 3.5** A Member in Public Practice who is invited by a Client or potential Client to provide Professional Services which comprise participating in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document shall determine whether there are threats to the Member's ability to comply with the fundamental principles of the Code prior to accepting the Engagement. Where the Member determines that there is a threat to the Member's ability to comply with the fundamental principles of the Code, the Member shall apply appropriate safeguards to eliminate the threat or reduce it to an Acceptable Level. Where appropriate safeguards are not available to reduce the

threat to an Acceptable Level, the Member shall decline the Engagement or the relevant part thereof.

3.6 A Member in Public Practice who is invited by an Assurance Client to provide Professional Services which comprise participating in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document shall consider Section 290 *Independence – Assurance Engagements* of the Code to determine whether the proposed Professional Services create threats to the Member's Independence. Where the Member determines that there is a threat to the Member's Independence, the Member shall apply appropriate safeguards to eliminate the threat or reduce it to an Acceptable Level. Where appropriate safeguards are not available to reduce the threat to an Acceptable Level, the Member shall decline the Engagement or the relevant part thereof.

3.7 A Member in Public Practice who is invited by an Audit Client to provide Professional Services which comprise participating in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document shall comply with the applicable independence requirements of the *Corporations Act 2001*.

3.8 When considering the appropriateness of accepting a role as a DDC Member, DDC Observer or Reporting Person, a Member in Public Practice should consider matters such as:

- a) the responsibilities of the role;
- b) the circumstances and context of the role, including the proposed transaction to which the Public Document relates, the proposed timetable for the due diligence process, the availability of information and any limitations on the scope of the Professional Services to be provided. (This would usually be outlined in the Due Diligence Planning Memorandum);
- c) relevant experience and expertise of the other members of the Due Diligence Committee and other participants in the due diligence process, as membership of the Due Diligence Committee will generally create a relationship of cross reliance;
- d) whether providing the Professional Services would require the Member to hold an Australian Financial Services Licence; and
- e) where the Member's Firm or a Network Firm is the statutory auditor of a Listed Entity or disclosing entity in Australia or a foreign jurisdiction, whether independence obligations, in addition to the requirements of the Code, preclude the Member from accepting a role as a DDC Member, DDC Observer or Reporting Person, or limit the scope of the role the Member may perform.

3.9 If a Member in Public Practice is not certain about the legal implications of performing the role of a DDC Member, DDC Observer or Reporting Person, the Member should seek legal advice.

Professional Independence

3.10 When engaged to provide a Professional Service to a Client which requires Independence, a Member in Public Practice shall comply with Independence as defined in this Standard.

3.11 A Member in Public Practice shall consider whether an Engagement, or a specific element of an Engagement, is an Assurance Engagement under the *Framework for Assurance Engagements* issued by the AUASB.

3.12 Where the Engagement is an Assurance Engagement, the Member in Public Practice shall comply with Section 290 *Independence – Assurance Engagements* of the Code.

Professional competence and due care

- 3.13 A Member in Public Practice performing Professional Services shall maintain professional competence and take due care in the performance of the Member's work in accordance with Section 130 *Professional Competence and Due Care* of the Code.**
- 3.14 Where a Member in Public Practice has agreed to provide a Due Diligence Sign-Off in respect of Financial Information and/or Other Specific Information that requires the consideration of matters that are outside the professional expertise of the Member, the Member shall seek expert assistance or advice from a suitably qualified third party or decline the Engagement. Where the Member relies upon the advice of a third party in connection with a Due Diligence Sign-Off or other reports, the Member shall disclose in the Member's Due Diligence Sign-Off or other reports the name and qualifications of the third party and the subject matter on which the third party advice has been obtained.**
- 3.15 When planning to use the work of a suitably qualified third party, a Member in Public Practice shall assess the professional competence and objectivity of that third party and the appropriateness and adequacy of the work performed.**
- 3.16 A Due Diligence Committee will usually include or be assisted by advisers to the Client, including the Client's legal adviser. A Member in Public Practice who reports to a Due Diligence Committee is generally entitled to rely on the advice and opinions of those advisers. Accordingly, paragraphs 3.14 and 3.15 are not intended to require a Member to obtain separate advice on matters for which another adviser to or member of the Due Diligence Committee is responsible.
- 3.17 In performing a Professional Service, a Member in Public Practice should consider any guidance in respect of such services issued by the professional accounting bodies and appropriate regulatory authorities.

Confidentiality

- 3.18 In accordance with Section 140 *Confidentiality* of the Code, a Member in Public Practice who acquires confidential information in the course of professional work for a Client shall not use that information for any purpose other than the proper performance of the professional work for that Client.**
- 3.19 Where a Member in Public Practice provides Professional Services to a Client which comprise participating in and/or reporting to a Due Diligence Committee, the proper performance of the work will generally require the Member to disclose confidential information of the Client to the Due Diligence Committee, subject to any overriding restrictions on disclosure of information (including those commonly referred to as ethical wall arrangements). Unless the Member has a legal obligation of disclosure, the Member should not disclose any information relating to the Client's affairs to a party, other than to a DDC Member, DDC Observer or Reporting Person, without the Client's prior written permission.

4. Professional Engagement and other matters

- 4.1 A Member in Public Practice shall document and communicate the Terms of Engagement to a Client in accordance with APES 305 *Terms of Engagement* and this Standard.**
- 4.2 The Terms of Engagement prepared by a Member in Public Practice should specify:
- a) whether an investigating accountant's report or other report will be provided for inclusion in the Public Document and if so the Financial Information and/or Other Specific Information that will be the subject of the report and the nature and extent of assurance (if any) to be provided;

- b) where the Member will have a role in relation to the Due Diligence Committee, the nature of the role including whether the Member will be a DDC Member, a DDC Observer or a Reporting Person;
- c) the tasks to be undertaken by the Member in connection with the Public Document including the scope of work on the Financial Information and/or Other Specific Information upon which any Due Diligence Sign-Off is to be provided; and
- d) whether the Member will prepare a Due Diligence Sign-off and the proposed form of such sign off.

4.3 Where a Due Diligence Planning Memorandum assigns responsibilities to a Member in Public Practice that extend beyond those agreed in the Engagement Document, the Member shall:

- a) advise the Client, and if acceptable to both the Member and the Client, either amend and re-issue the Engagement Document or issue an addendum to the Engagement Document to reflect the additional responsibilities; or
- b) where those additional responsibilities conflict with, or are prohibited by, this Standard, or are not acceptable to the Member:
 - advise the Client and its Due Diligence Committee of the Member's responsibilities outlined in the Engagement Document and/or this Standard; and
 - take all reasonable steps to have the Due Diligence Planning Memorandum amended so that it does not assign responsibilities to the Member that conflict with, or are prohibited by, this Standard or are beyond those agreed in the Engagement Document or addendum thereto.

4.4 Where, after taking the steps outlined in paragraph 4.3, the Due Diligence Planning Memorandum still includes responsibilities that conflict with, or are prohibited by this Standard, the Member in Public Practice shall decline the Engagement to participate in, and/or report to, the Due Diligence Committee.

4.5 A Member in Public Practice should take all reasonable steps to ensure that the Public Document and other documents associated with the due diligence process (such as the Due Diligence Planning Memorandum) do not describe the role of the Member in a manner that may imply that the Member has undertaken procedures with respect to, accepted responsibility for, approved the disclosure of, or reported upon matters or information in the Public Document or other associated documents beyond what was agreed in the Engagement Document.

Materiality guidance

4.6 Where a Member in Public Practice agrees to provide materiality guidance, which a Client and its Due Diligence Committee will consider for application to the due diligence process in relation to a Public Document, the Member shall comply with applicable Auditing and Assurance Standards.

4.7 The materiality guidance provided by the Member in Public Practice should only set out the quantitative matters to be considered by the Client and the Due Diligence Committee and indicate that decisions as to quantitative and qualitative considerations concerning materiality in relation to a specific potential or proposed disclosure are the responsibility of the Client after consideration by its Due Diligence Committee.

4.8 A Member in Public Practice who is engaged to provide materiality guidance to a Client and its Due Diligence Committee shall issue a Materiality Letter to the Client and the Due Diligence Committee.

A form of the Materiality Letter is given in Appendix 2.

5. Roles and obligations of a Member in Public Practice in a due diligence process in connection with a Public Document

5.1 A Member in Public Practice may be asked to undertake a variety of roles in relation to a due diligence process in connection with a Public Document as:

a) a DDC Member which typically includes:

- i) attending meetings of the Due Diligence Committee;
- ii) considering information presented to the Due Diligence Committee;
- iii) participating in decisions of the Due Diligence Committee;
- iv) reading and commenting on drafts of the Public Document;
- v) performing procedures specified in an Engagement Document and preparing a Due Diligence Sign-Off; and
- vi) signing the Due Diligence Committee's report to Those Charged with Governance of the Client;

b) a DDC Observer which typically includes attending some or all meetings of the Due Diligence Committee at the request of the Client and may include performing procedures specified in an Engagement Document and preparing a Due Diligence Sign-Off; or

c) a Reporting Person reporting to the Client and its Due Diligence Committee on the results of procedures specified in an Engagement Document.

A Member in Public Practice may also be asked to undertake Professional Services for, and provide a report to, a Client on Financial Information and/or Other Specific Information relevant to a Public Document, without being a DDC Member, DDC Observer or Reporting Person.

Examples of such reports (which could alternatively be prepared as a Reporting Person) are:

- an assurance report applying relevant Auditing and Assurance Standards on specific Financial Information (usually known as an investigating accountant's report); and
- a tax report on the taxation implications for shareholders of a transaction contemplated in the Public Document;

either of which may or may not be prepared for inclusion in the Public Document.

5.2 A Member in Public Practice who accepts an Engagement to provide a Due Diligence Sign-Off or other reports to a Due Diligence Committee, whether as a DDC Member, DDC Observer, or Reporting Person shall specify in the Due Diligence Sign-Off or other reports the Financial Information and/or Other Specific Information in or relevant to the Public Document that the Member has performed procedures on, and the nature of those procedures.

5.3 Based on the work performed a Member in Public Practice may report in a Due Diligence Sign-Off that the Member is not aware of:

- a) the specified Financial Information and/or Other Specific Information being misleading or deceptive (including by omission) in the form and context in which they appear in the Public Document; and

- b) the due diligence enquiries set out in the Due Diligence Planning Memorandum adopted by the Due Diligence Committee as they relate to the Financial Information and/or Other Specific Information not constituting all enquiries which are reasonable in the circumstances so far as the Financial Information and/or Other Specific Information are concerned.

5.4 A Member in Public Practice who accepts an Engagement to report to a Due Diligence Committee, whether as a DDC Member, DDC Observer or a Reporting Person shall not report or advise on matters outside the Member's area of expertise.

5.5 Paragraph 5.4 precludes a Member in Public Practice from providing an opinion on:

- a) whether the Financial Information and/or Other Specific Information disclosed in a Public Document is sufficient and appropriate to satisfy the relevant disclosure requirements of the *Corporations Act 2001*, for example those set out in Division 4 of Part 6D.2. These are matters requiring the collective consideration of all of the members of the Due Diligence Committee, and are reported on in the Due Diligence Committee's report; or
- b) whether the Client has complied with other legal obligations such as continuous disclosure obligations.

5.6 Paragraph 5.4 does not preclude a Firm from providing legal advice and reporting in relation to a Public Document if the Firm has Partners and Managerial Employees who are suitably qualified lawyers.

5.7 A Member in Public Practice shall sign a report to Those Charged with Governance on:

- a) information in a Public Document of a general nature relating to financial, accounting, tax or any other matters; or
- b) the content of the Public Document as a whole; or
- c) the due diligence process in relation to (a) and (b),

only as a DDC Member and where that report is a report of the Due Diligence Committee which is approved and signed concurrently by the other members of the Due Diligence Committee.

5.8 The matters set out in paragraph 5.7 should be considered by the Due Diligence Committee using the collective knowledge and expertise of the committee as a whole. A Member in Public Practice will not have the requisite knowledge or expertise to make determinations in relation to, or report on, those matters independently of other Due Diligence Committee members. Paragraph 5.7 (a) does not preclude a Member acting as a Reporting Person from providing Professional Services in respect of the range of potential tax implications for shareholders/unit holders that may need to be described in the Public Document.

5.9 A Member in Public Practice providing Professional Services to a Client which comprise participation in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person shall bring to the attention of the Client and/or its Due Diligence Committee any significant concerns relating to the matters set out in paragraph 5.7 which come to the attention of the Member in performing the work set out in the Member's Terms of Engagement.

5.10 A Member in Public Practice who accepts an Engagement to provide a Due Diligence Sign-Off in relation to Financial Information shall not prepare the Financial Information which is the subject of the Due Diligence Sign-Off or any extracts, summaries or analysis thereof provided elsewhere in the Public Document.

5.11 Paragraph 5.10 does not preclude a Member in Public Practice from reviewing or commenting on drafts of the Public Document for the purpose of alerting the Client and the Due Diligence Committee to matters that may affect the Member's ability to provide the Due Diligence Sign-Off, and, if the Member is a DDC Member for the purposes of fulfilling the Member's duties as a DDC Member.

- 5.12 Where a Member in Public Practice accepts an Engagement to assist a Client or its Due Diligence Committee in any verification process in relation to information in the Public Document (other than disclosures and information relating to taxation law), the Member shall agree the specific procedures to be undertaken with the Client to provide such assistance.**
- 5.13 A Member in Public Practice should only provide verification assistance in relation to information in the Public Document (other than disclosures and information relating to taxation law) by performing an agreed upon procedures Engagement. A Member should not accept responsibility for the verification of information in a Public Document (other than disclosures and information relating to taxation law). Those Charged with Governance of the Client are responsible for the inclusion of the Financial Information and Other Specific Information in the Public Document and are best placed to know whether there is new or additional information that might affect its proper verification.
- 5.14 Where a Member in Public Practice accepts an Engagement to verify or assist a Client or its Due Diligence Committee with the verification of disclosures and information relating to taxation law, the Member shall exercise professional judgement in determining the nature, timing and scope of the procedures taking into consideration the Terms of Engagement.**
- 5.15 Where a Member in Public Practice is a DDC Observer and has been requested to provide a Due Diligence Sign-Off, the Member shall consider the scope of any procedures the Member has agreed to perform in relation to the due diligence process in connection with the Public Document, and assess whether the scope of the procedures will enable the Member to provide a Due Diligence Sign-Off.**
- 5.16 The scope of the role and responsibilities of a Member in Public Practice as a DDC Observer should be specified in the Engagement Document. The role should also be described in the Due Diligence Planning Memorandum and should be consistent with that specified in the Engagement Document. As a DDC Observer, the Member is not a party to the Due Diligence Planning Memorandum or the Due Diligence Committee's report to the Client.
- 5.17 A Member in Public Practice who performs an Assurance Engagement in connection with a Public Document shall comply with Auditing and Assurance Standards in accordance with APES 210 *Conformity with Auditing and Assurance Standards*.**
- 5.18 A Member in Public Practice who performs a valuation service in connection with a Public Document shall comply with APES 225 *Valuation Services*.**
- 5.19 A Member in Public Practice who performs a taxation service in connection with a Public Document shall comply with APES 220 *Taxation Services*.**
- 5.20 A Member in Public Practice who performs Professional Services in connection with a Public Document that includes prospective financial information shall comply with APES 345 *Reporting on Prospective Financial Information Prepared in connection with a Disclosure Document*.**

6. Documentation

- 6.1 A Member in Public Practice shall prepare working papers in accordance with this Standard that appropriately document the work performed, including aspects of the Engagement that have been provided in writing. The documentation prepared by the Member shall:**
- a) provide a sufficient and appropriate record of the procedures performed for the Engagement;**

- b) identify the source of significant information the Member has used in the conduct of the Engagement; and
- c) demonstrate that the Engagement was carried out in accordance with this Standard and all other Professional Standards applicable to the Engagement, including policies and procedures established in accordance with APES 320 *Quality Control for Firms*, and any applicable ethical, legal and regulatory requirements.

7. Reporting

7.1 Before a Member in Public Practice provides a Due Diligence Sign Off to a Client and its Due Diligence Committee, the Member shall:

- (a) assess whether the scope of procedures undertaken in relation to the Financial Information and/or Other Specific Information is sufficient and appropriate for that purpose;
- (b) consider the impact of any limitations on the scope of work; and
- (c) ascertain that all material matters in relation to the Financial Information and/or Other Specific Information which arose during the course of the Member's work have been addressed by the Client or its Due Diligence Committee.

7.2 Where the procedures undertaken in relation to the Financial Information and/or Other Specific Information only comprise a limited level of enquiry and/or the procedures were undertaken pursuant to another Engagement completed in the past, a Member in Public Practice shall not issue a Due Diligence Sign Off containing the conclusions referred to in paragraph 7.3(k).

7.3 Where the requirements of paragraph 7.1 have been met and a Member in Public Practice provides a Due Diligence Sign-Off, it shall contain the following:

- a) the name of the party or parties engaging the Member;
- b) any other addressees of the Due Diligence Sign-Off (typically being the other members of the Due Diligence Committee);
- c) the date on which the Due Diligence Sign-Off has been issued;
- d) the purpose for which the Due Diligence Sign-Off has been prepared, including the Public Document and proposed transaction to which it relates;
- e) whether the Member has prepared the Due Diligence Sign-Off in the capacity of a DDC Member or DDC Observer;
- f) a statement that the Professional Services were conducted and the Due Diligence Sign-Off was prepared in accordance with this Standard;
- g) the Financial Information and/or Other Specific Information disclosed in the Public Document in relation to which the Member has undertaken procedures to which the Due Diligence Sign-Off relates;
- h) the scope of work performed in relation to the Financial Information and/or Other Specific information to which the Due Diligence Sign-Off relates;
- i) any limitations on the scope of work performed;
- j) the basis on which the statements in the Due Diligence Sign-Off are made, including specific reference to:
 - the scope of work performed;
 - the materiality guidelines adopted by the Due Diligence Committee; and
 - the extent, if any, of reliance by the Member on the work of others;

- k) the conclusions of the Member in the form of negative statements as to whether having performed the scope of work, the Member has become aware of anything to cause the Member to believe that:
 - the Financial Information and/or Other Specific Information [as presented in identified sections of the Public Document] is misleading or deceptive (including by omission) in the form and context in which it appears; and
 - the due diligence enquiries set out in the Due Diligence Planning Memorandum adopted by the Due Diligence Committee as they relate to the Financial Information and/or Other Specific Information do not constitute all inquiries which are reasonable in the circumstances so far as the Financial Information and/or Other Specific Information is concerned;
- l) the significant assumptions upon which the conclusions of the Member are based;
- m) all qualifications to the conclusions of the Member; and
- n) any restrictions on the use and distribution of the Due Diligence Sign-Off.

A form of Due Diligence Sign-Off which complies with the requirements of this Standard is set out in Appendix 1. Members should note that this form of Due Diligence Sign-Off may require amendment if the Due Diligence Sign-Off is prepared by a Member as a DDC Observer.

- 7.4 Where a Member in Public Practice is asked to provide a Due Diligence Sign-Off in respect of a Public Document which has not been finalised, the Member shall consider:**
- a) any amendments to the Due Diligence Sign-Off which may be required to reflect that the Public Document has not been finalised; and
 - b) the information which has not been finalised in the draft Public Document,

to ensure that any sign off provided at that time is appropriate.

- 7.5** A substantially complete draft of a Public Document is often used as a confidential and restricted briefing document to seek the support of potential investors for the proposed transaction. In this situation, a Member in Public Practice may be requested to provide a Due Diligence Sign-Off in relation to the draft Public Document or to advise whether the Member would be able to provide a Due Diligence Sign-Off in relation to the draft Public Document if the Member was requested to do so at that time. In providing any such Due Diligence Sign-Off or providing any such advice, the Member should clearly state:
- any assumptions or qualifications relevant to the provision of the Due Diligence Sign-Off or the advice;
 - the specific draft or version number of the Public Document to which the Due Diligence Sign-Off or the advice relates; and
 - that the Due Diligence Sign-Off or the advice is subject to change as a result of events which occur or information which comes to the Member's attention between the date of the provision of the Due Diligence Sign-Off or the advice in relation to the draft Public Document and the date of the provision of any subsequent or final Due Diligence Sign-Offs in relation to the Public Document.
- 7.6** Where a Member in Public Practice is requested to provide to a Client and/or its Due Diligence Committee written status reports or interim reports in respect of specific work discussed in the Engagement Document (for example by way of a draft report, an oral presentation and/or by way of contributions to issues registers) or requested to provide on an interim basis detailed findings, the Member should include an appropriate disclaimer stating that such reports are provided for "information only" and are not suitable for reliance by the Client, the Due Diligence Committee or any other person.

- 7.7 Where a Client or its Due Diligence Committee requests a Member in Public Practice to make available to the Due Diligence Committee a previous report provided by the Member to the Client, or a report on work that is being undertaken by the Member for the Client for a purpose other than the transaction to which a Public Document relates (for example, a report on internal controls of the Client, or on acquisition due diligence procedures undertaken in relation to a business to be acquired by the Client), the Member should consider whether or not and on what basis such report(s) may be made available to the Due Diligence Committee, having regard to relevant factors, including:
- a) whether the information in the report (or on which it is based) remains current;
 - b) whether the Member's approach to materiality in preparing the report was consistent with the materiality guidelines adopted by the Due Diligence Committee;
 - c) the relevance of the report to the due diligence enquiries being undertaken by the Due Diligence Committee;
 - d) the level of testing done on source information relied on by the Member in preparing the report; and
 - e) whether Client consent has been obtained.
- 7.8 Where a Member in Public Practice is requested to provide consent to being named in a Public Document, or to the inclusion of the Member's report in the Public Document, the Member shall, prior to providing the consent, obtain the final draft of the Public Document to ensure that the form and context in which the Member's name and/or report appears is appropriate.
- 7.9 In accordance with the terms of a Due Diligence Planning Memorandum and/or relevant legislation, a Member in Public Practice shall bring to the attention of a Client and/or its Due Diligence Committee any material new circumstances relevant to a Public Document of which the Member becomes aware subsequent to the issue of the Public Document.
- 7.10 The period to which any obligation referred to in paragraph 7.9 applies will usually be set out in the Due Diligence Planning Memorandum or relevant legislation.

8. Professional fees

- 8.1 A Member in Public Practice who performs Professional Services comprising participating in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document, shall be remunerated for such services by way of professional fees computed in accordance with Section 240 *Fees and other Types of Remuneration* of the Code.
- 8.2 A Member in Public Practice shall not enter into a Contingent Fee arrangement or receive a Contingent Fee for a Professional Service which requires Independence or which purports to be independent.

Conformity with International Pronouncements

The International Ethics Standard Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES 350.

APPENDIX 1

Due Diligence Sign-Off

[insert date]

The Due Diligence Committee,
each of its members and their representatives

Board of Directors
[insert name of the Client]
[insert address]

Dear Sirs,

[insert subject]

This Due Diligence Sign-Off is provided to you in relation to the [describe Public Document] to be issued by [insert Client] on [insert date] in connection with [insert details of proposed transaction] (**Offer/Transaction**), and the work undertaken by us as a [DDC Member/DDC Observer] pursuant to our Engagement Document with [Client] dated [insert date] (the **Engagement Document**).

Our services have been conducted and this Due Diligence Sign-Off has been prepared in accordance with APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document*.

1. Introduction

We refer to the following financial information relating to the Client that is disclosed in the [describe Public Document]:

- (a) [specify relevant historical financial information on which the Member has performed a review] for [insert period] as disclosed in Section [insert];
- (b) [specify relevant pro forma historical information on which the Member has performed a review] for [insert period] as disclosed in Section [insert];
- (c) [specify relevant forecast financial information, if any on which the Member has performed a review] for [insert period] as disclosed in Section [insert],

(collectively **Financial Information**). [Note –the definition of Financial Information should, where appropriate, be consistent with that used in any investigating accountant's report being provided by the Member in Public Practice]

[The [other] information that is disclosed in the [describe Public Document], and to which this Due Diligence Sign-Off relates comprises the following:

- (d) [specify information which has been the subject of procedures specified in the Engagement Document] disclosed in section [] of the [describe Public Document];
- (e) [insert as required]

(collectively **Other Specific Information**).]

2. Scope of Work

As agreed with [Client] in the Engagement Document, in connection with the [describe Public Document] we have:

- (a) [participated as a member of and been a Reporting Person to] [attended as an observer meetings of] the Due Diligence Committee (**DDC**) that has been established by the [Client] for the purposes of coordinating due diligence investigations as set out in the Due Diligence Planning Memorandum (**DDPM**) in connection with the [describe Public Document];
- (b) prepared materiality guidance in a letter dated [insert date] for consideration by the [Client] and the DDC;
- (c) conducted a review, in accordance with [ASRE 2405 or ASAE 3000 or other standards as appropriate], of the Financial Information furnished to us by the [Client];
- (d) [assisted the Client in its verification of certain statements in the [describe Public Document] by performing the procedures set out in [insert – eg “Appendix 2” or “the Engagement Document”] as agreed by the Client (**Agreed Upon Procedures**);
- (e) [prepared an investigating accountant's report (if applicable) on the Financial Information for inclusion in the [describe Public Document]];
- (f) [prepared a letter on the tax implications of the proposed Offer/Transaction for Australian tax residents (if applicable) for inclusion in the [describe Public Document]]; and
- (g) [insert scope of work in relation to Other Specific Information being information which was not subject to the procedures in (d) above.]

[Note: this is an example scope only, and should be tailored to reflect the agreed scope of the professional services]

Scope limitations

[insert scope limitations as relevant. For example, any limitations in access to financial records, key management personnel or information relating to a particular issue or particular accounting standard. See example limitation below for Agreed Upon Procedures work. Particular scope limitations may need to be inserted in relation to paragraph (c) in order to comply with Auditing Standards applying to review engagements]

The work referred to in paragraph (d) above was undertaken in accordance with Australian Auditing Standards applicable to Agreed Upon Procedures Engagements. The responsibility for determining the adequacy or otherwise of the Agreed Upon Procedures is that of the directors of the Client. That work did not constitute an audit or review in accordance with Australian Auditing Standards and consequently no assurance or audit opinion or review statement is expressed. Had we performed additional procedures or had we performed an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, other matters might have come to our attention that would have been reported to you.

3. Findings – Agreed Upon Procedures

[insert factual findings arising from Agreed Upon Procedures, including any exceptions noted]

4. Basis for Review Statement

The statement in section 5 (**Review Statement**) is made on the basis of:

- (a) the procedures and other activities performed by us as described in section 2(c);
- (b) the materiality criteria adopted by the Client and the DDC; and
- (c) the assumptions and qualifications set out in this letter.

In making the Review Statement we only hold ourselves out as having expertise as [designation of applicable professional body] [in advising on Australian taxation matters (if applicable)]. We disclaim any skills or expertise in any other capacity.

5. Review Statement

Based on our review of the Financial Information, which is not an audit, and applying the materiality criteria adopted by the DDC, nothing has come to our attention that causes us to believe that:

- (a) the Financial Information is misleading or deceptive (including by omission) in the form and context in which it appears; or
- (b) the due diligence enquiries set out in the DDPM adopted by the DDC as they relate to the Financial Information do not constitute all enquiries which are reasonable in the circumstances so far as the Financial Information is concerned.

All matters in relation to the Financial Information which arose during the course of our work have been addressed by management of the [Client] or the DDC and, accordingly, there are no outstanding issues in relation to the Financial Information identified as part of our work which require the attention of the [Client] and the DDC.

6. Other Specific Information

[Insert appropriate statements and the basis for those statements, in relation to the Other Specific Information referred to in 2(g), if applicable.]

7. Assumptions

In making the Review Statement in this Due Diligence Sign-Off, we have assumed that:

- (a) the representations made and the information (including responses to questions and questionnaires) provided by directors, officers, personnel and agents of the Client, other members of the DDC, and other persons reporting to the DDC, have been complete, true and accurate in all respects and were not misleading or deceptive;
- (b) all persons who were interviewed, questioned or sent questionnaires were competent to answer all questions put to them, made complete and accurate disclosures in all matters and that there were no other persons who should have been interviewed, questioned or sent questionnaires in relation to the matters the subject of those questions;
- (c) there were no relevant documents or information other than those which were disclosed, or provided by or on behalf of the Client to us which are relevant to the Financial Information;
- (d) the report of [*insert name of third party expert*] dated [*insert date*] concerning [*insert*] [note: *qualifications of third party expert to be described*] is accurate and complete;
- (e) all corporate records and other documents examined by us are genuine, complete, up-to-date and accurate and, without limitation, any minutes of the meetings of the Client examined by us correctly record the business of, and resolutions passed at, any such meeting and no relevant corporate records have been withheld from us (whether deliberately or inadvertently);
- (f) all factual matters stated in any document provided to us are true and accurate; and
- (g) the [*describe Public Document*] [*insert date and final document version number*] will be lodged with the Australian Securities and Investment Commission.

Nothing has come to our attention that causes us to believe that these assumptions are not reasonable. We have not taken any steps to validate these assumptions other than as may be specified in our scope of work in section 2.

8. Qualifications

Our Statements in this Due Diligence Sign-Off are subject to the following qualifications:

- (a) we have no responsibility to update this Due Diligence Sign-Off for events and circumstances occurring after the date of this Due Diligence Sign-Off, other than as required under the terms of the Engagement Document;
- (b) insofar as consideration of Australian accounting standards and other mandatory professional reporting requirements [and Australian tax laws] impact or formed part of our scope of work, in making the Statement in section 5 we have had regard to such Australian requirements as are in place as at 9am on the date of this letter;
- (c) we make no statement, and express no opinion, on any matter such as legal matters requiring skills or expertise other than of an [accounting] [and/or] [Australian taxation] nature;
- (d) the Statement in section 5 of this Due Diligence Sign-Off relates only to the Financial Information and does not relate to any additional statements in or concerning the [describe Public Document] that may be made by any person or any other conduct that any person may engage in concerning the [describe Public Document];
- (e) the Statement in section 5 of this Due Diligence Sign-Off is limited to the knowledge of those partners, directors and employees of [insert Firm] who have provided the services [to Client] referred to in this letter, and we have made no enquiries of any [other] partner, director or employee of [insert Firm], or any of its related entities, who may have knowledge of matters relevant to the [describe Public Document] [through the provision of services to other Clients of [insert Firm], or whose knowledge may not be applied because of any ethical walls arrangements implemented in relation to our engagement by [Client] on this matter; and
- (f) [We have relied on the accuracy and completeness of the report of [insert name of third party expert] dated [insert date] concerning [insert]. [note: qualifications of third party expert to be described].

9. Recipients of this Due Diligence Sign-Off

This Due Diligence Sign-Off is given solely for the benefit of:

- (a) the Client and its representatives on the DDC;
- (b) the directors of the Client; and
- (c) each other member of the DDC and their representatives in their respective capacities as such,

(together referred to as the **Recipients**).

This Due Diligence Sign-Off is not intended for general circulation or publication and may not, without our prior written consent in each specific instance:

- (a) be disclosed except to persons who, in the ordinary course of a Recipient's business have access to their papers and records and on the basis that such person will make no further disclosure of it and are not entitled to rely on it for any purpose;
- (b) be filed with a government or other agency, or be quoted or referred to in any public document or domain; or
- (c) be reproduced or used for any other purpose,

except as required by law, regulation or the rules of any Stock Exchange or government body or in connection with any enquiry conducted by a regulatory body or in the enforcement of the rights of, or in defence of any actual or potential claim against, a Recipient.

We do not accept any responsibility for any losses whatsoever occasioned by any Recipient or by any other party as a result of the circulation, reproduction or use of this Due Diligence Sign-Off contrary to the above paragraph.

Yours faithfully

Member or Firm

APPENDIX 2

Materiality Letter

The Due Diligence Committee, each of its members
and their representatives

Board of Directors
[Insert name of issuer]
[Insert address of issuer]

[Date]

Dear []

Materiality guidance in relation to due diligence process of [Issuer]'s [Public Document]

We refer to our Engagement letter with [] dated [].

The purpose of this letter is to set out guidance with respect to the quantitative materiality thresholds for consideration by [Client and/or Issuer] and the Due Diligence Committee ("DDC") for the **[Prospectus /Product Disclosure Statement/Bidder Statement/Target Statement/Explanatory Memorandum /Cleansing Notice or other Public Document]** proposed to be issued in connection with [describe proposed transaction] (the "Public Document") by [Issuer].

Decisions on materiality in relation to specific, potential or proposed disclosures are the responsibility of [Client] after consideration by the DDC. This letter contains specific guidance in relation to the quantitative factors of materiality. However, it does not contain any specific guidance in relation to the qualitative factors of materiality which by definition will be unique to the matter being considered.

Relevance of materiality guidelines

The guidance contained within this letter is based on requirements and guidance available in Australian Accounting Standards, AUASB Standards and AUASB Guidance Statements, and may not necessarily be directly applicable to all circumstances which may arise in relation to the Public Document.

Also, in the event of an alleged deficiency in the Public Document due to an alleged misleading or deceptive statement or omission or otherwise, the relevance or application of the concept of materiality may depend on the law that is alleged to have been breached, the available defences and the nature of the legal proceedings (i.e., criminal or civil). We recommend [Client and/or Issuer] seek legal advice on the extent to which materiality may or may not be relevant to the Public Document due diligence process in this instance.

Requirements and Application and Other Explanatory Material ("guidance") on applying the concept of materiality in the planning and performing of an audit of historical financial information is contained in Auditing Standard ASA 320 *Materiality in Planning and Performing an Audit* ("ASA 320") and Accounting Standard AASB 1031 *Materiality* ("AASB 1031"). The AUASB Glossary contains the following definition for „Materiality“:

“In relation to information, that if information is omitted, misstated or not disclosed, that information has the potential to affect the economic decisions of users of the financial report or the discharge of accountability by management or those charged with governance.”

Similarly AASB 1031 defines „Materiality“ as:

“Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

In relation to applying materiality to pro forma adjustments to historical financial information, the following pronouncements have been considered:

- AGS 1062 *Reporting in Connection with Proposed Fundraisings*¹; and
- Section 728 of the Corporations Act 2001 (“the Act”) which determines that an offence has occurred if a misleading or deceptive statement, omission or new circumstance is materially adverse from the point of view of an investor²,

with the provisions of the Act overriding the requirements of applicable AUASB Standards and AUASB Guidance Statements should they conflict or yield a different result³.

The requirements and guidance contained in ASA 320 applies to historical financial information. A Due Diligence Committee dealing with prospective financial information may refer to ASA 320 for guidance when establishing materiality thresholds.

There is a relationship between materiality and risk. That is, the higher the risk of a statement being misleading or deceptive, or of an omission, the lower the materiality level. The DDC should take this relationship into account when determining the nature, timing and extent of due diligence procedures. The DDC should make a preliminary assessment of materiality to establish an appropriate quantitative materiality level to plan due diligence procedures.

Quantitative factors

Quantitative thresholds used as guidance for determining the materiality of the amount of an item or an aggregate of items are, of necessity, drawn at arbitrary levels. When establishing a preliminary quantitative materiality level, consideration needs to be given to:

- the reliability of management information;
- any factors which may indicate deviations from normal activities; and
- qualitative factors.

A percentage is ordinarily applied to a chosen benchmark as a starting point in determining materiality. When identifying an appropriate benchmark, regard is normally given to factors such as the elements of the financial information, items users are likely to focus on, the nature of the entity, its life cycle, industry and economic environment, the size of the entity, ownership and financing and the relative volatility of the

¹ As of March 2011 AUASB is revising this Standard.

² There is no definition of “materiality” or “materially adverse” in the Corporations Act 2001 (Cwlth). Given the absence of a legislative definition of materiality, it is widely accepted practice in Australia to consider the accounting definition of materiality in “Accounting Standard AASB 1031: Materiality”.

³ [If the Public Document is a Cleansing Notice, it may be desirable to include the following wording since S728 applies only to Disclosure Documents.]

[Section [708AA/1012DAA] of the Act refers to the notion of “material” under subsection 11, which states that the Cleansing Notice to be lodged with the Australian Securities Exchange is defective if the Cleansing Notice is false or misleading in a material particular; or if the notice has omitted from it a matter or thing, the omission of which renders the notice misleading in a material respect. Given the similarities in references to the concept of materiality being applied to a misleading statement/particular or omission in both sections [708AA/1012DAA] and 728, AGS 1062 is still considered a useful source of guidance with regard to materiality where an offer is made under section [708AA/1012DAA].]

benchmark. For uncorrected misstatements that are below the materiality level, an assessment is required of whether the cumulative result of these misstatements could have a material effect.

ASA 320 does not contain requirements that specify how to determine quantitative materiality thresholds, as their determination is a matter of professional judgement. Australian Accounting Standard AASB 1031 "Materiality" ("AASB 1031") adopts a similar approach to ASA 320 and explains the role of materiality in making judgements in the preparation and presentation of financial reports.

AASB 1031 states that in determining materiality both qualitative and quantitative factors need to be considered together and in particular circumstances, "either the nature or the amount of an item or aggregate of items could be the determining factor".

AASB 1031 provides a quantitative methodology as guidance for the determination of materiality in financial statements that states that:

- an amount which is equal to or greater than 10% of the appropriate base amount may be presumed to be material unless there is evidence, or convincing argument, to the contrary; and
- an amount which is equal to or less than 5% of the appropriate base amount may be presumed not to be material unless there is evidence, or convincing argument, to the contrary.

As the above represents an aggregate materiality threshold the due diligence process should seek to identify individual matters or items that could have a material effect in aggregate. To facilitate this, the DDC should consider adopting an appropriate threshold for individual items to be identified and collected to assess whether in aggregate they may be material. General practice is to identify and collect individual items in a range of X% to Y% of the aggregate materiality threshold.

This quantitative methodology is in addition to, but not a substitute for, any qualitative assessment. The appropriate base amount will depend on the particular circumstances and AASB 1031 provides the following guidance in this respect:

- (a) *the amount of an item or an aggregate of items relating to the statement of financial position is compared with the more appropriate of:*
 - (i) *the recorded amount of equity; and*
 - (ii) *the appropriate asset or liability class total; or*
- (b) *the amount of an item or an aggregate of items relating to the statement of comprehensive income is compared with the more appropriate of the:*
 - (i) *profit or loss and the appropriate income or expense amount for the current reporting period; and*
 - (ii) *average profit or loss and the average of the appropriate income or expense amounts for a number of reporting periods (including the current reporting period); or*
- (c) *the amount of an item or an aggregate of items relating to the statement of cash flows is compared with the more appropriate of the:*
 - (i) *net cash provided by or used in the operating, investing, financing or other activities as appropriate, for the current reporting period; and*
 - (ii) *average net cash provided by or used in the operating, investing, financing or other activities as appropriate, for a number of reporting periods (including the current reporting period).*

Clearly trends in key operating performance measures are as important as the absolute numbers.

AASB 1031 states that materiality "is a matter of professional judgement influenced by the characteristics of the entity and the perceptions as to who are, or are likely to be, the users of the financial report and their information needs. Materiality judgements can only be properly made by those who have the facts". It is within this context that the quantitative threshold guidelines noted above should be used.

Recommendations on quantitative materiality thresholds

Our recommendations on quantitative materiality thresholds to be adopted by the Due Diligence Committee are as follows:

Financial performance and cash flows

The process of due diligence should seek to identify, in respect of the financial performance and operating cash flows, misstatements in excess of \$[] on the [net profit/profit before tax/EBITDA] of [Issuer]. This level represents approximately []% of the [average] [net profit/profit before tax/EBITDA] of [Issuer] for the year[s] [ended/ending] [] 20XX.

To ensure due consideration is given to individual items affecting the income statement and cash flow statement, which may aggregate to \$[], all individual items greater than \$[] should be identified for consideration.

Balance Sheet

The process of due diligence in respect of the balance sheet should seek to identify a misstatement or reclassification of [Issuer]'s balance sheet or net assets of more than \$[]. This level represents approximately X% of [the appropriate base] as at [] 20XX.

To ensure due consideration is given to individual items affecting the balance sheet, which may aggregate to \$[], all individual items greater than \$[] should be identified for consideration. These are items which are expected to affect the balance sheet only.

The quantitative materiality recommendations in this letter are provided as a guide only as recommendations covering every possible scenario, event or matter cannot be made. The overriding consideration in relation to each matter should be whether:

- the omission of the matter from the Public Document; or
- a misleading disclosure in relation to the matter,

would be likely to be considered to render the Public Document deficient in light of the legal disclosure requirements relevant to the Public Document.

Yours faithfully

Member

APPENDIX 3

Summary of revisions to the previous APES 350 (Issued December 2009)

APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* originally issued in December 2009 has been revised by APESB in March 2011. A summary of the revisions is given in the table below.

Table of revisions*

Paragraph affected	How affected
1.1	Amended
2 – Definition of Other Specific Information	Amended
4 – Reference to Appendix 2	Added
5.7	Amended
5.9	Amended
5.12	Amended
5.13	Amended
5.14	Added
Appendix 1 – second paragraph	Amended
Appendix 1 – 2 (g)	Amended
Appendix 1 – 2 Scope limitations	Amended
Appendix 1 – 4	Amended
Appendix 1 – 5	Deleted
Appendix 1 – 6	Added
Appendix 1 – 7	Amended
Appendix 1 – 7 (c)	Amended
Appendix 1 – 8 (a)	Amended
Appendix 1 – 9 (a)	Amended
Appendix 1 – 9	Amended
Appendix 2	Added

* Refer Technical Update 2011/2

APES 345 Reporting on Prospective Financial Information prepared in connection with a Public Document

[Supersedes APES 345 Reporting on Prospective Financial Information prepared in connection with a Disclosure Document issued in November 2008]

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

REVISED: October 2015

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 <i>Appendix 1: Summary of revisions to the previous APES 345 (Issued in November 2008)</i>	

1. Scope and application

- 1.1 The objectives of APES 345 *Reporting on Prospective Financial Information prepared in connection with a Public Document* are to specify a Member in Public Practice's professional and ethical obligations in respect of:
 - fundamental responsibilities of the Member who performs a Reporting Service Engagement;
 - compliance with applicable Independence requirements;
 - consideration of relationships and the provision of other Professional Services that create threats to the Member's ability to comply with the fundamental principles;
 - reporting and documentation;
 - communication with Those Charged with Governance; and
 - the impact of any litigation between the Client or its related entities and the Firm.
- 1.2 Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional standard APES 345 *Reporting on Prospective Financial Information prepared in connection with a Public Document (the Standard)*, which is effective for Engagements commencing on or after 01 January 2016 and supersedes APES 345 issued in November 2008. Earlier adoption of this Standard is permitted.
- 1.3 APES 345 sets the standards for Members in Public Practice in the provision of quality and ethical Professional Services in respect of Reporting Service Engagements. The mandatory requirements of this Standard are in **bold-type**, preceded or followed by discussion or explanations in normal type. APES 345 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.4 **Members in Public Practice in Australia shall follow the mandatory requirements of APES 345 when they undertake Reporting Service Engagements for Clients.**
- 1.5 **Members in Public Practice practising outside of Australia shall follow the mandatory requirements of APES 345 to the extent to which they are not prevented from so doing by specific requirements of local regulations and/or laws in the country in which they are working.**
- 1.6 **Members in Public Practice shall be familiar with relevant Professional Standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.7 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.8 All references to Professional Standards, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.9 In applying the requirements outlined in APES 345, Members in Public Practice should be guided not merely by the words but also by the spirit of this Standard and the Code.
- 1.10 The compilation of Prospective Financial Information does not, in itself, constitute a Reporting Service Engagement. APES 315 *Compilation of Financial Information* applies in these circumstances.

- 1.11 In this Standard, unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.

2. Definitions

For the purpose of this Standard:

Acceptable Level means a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the Member in Public Practice at that time, that compliance with the fundamental principles is not compromised.

Assurance Engagement means an Engagement in which a Member in Public Practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).

This includes an Engagement in accordance with the *Framework for Assurance Engagements* issued by the AUASB or in accordance with specific relevant standards, such as International Standards on Auditing, for Assurance Engagements.

AUASB means the Australian statutory body called the Auditing and Assurance Standards Board established under section 227A of the *Australian Securities and Investments Commission Act 2001*.

Client means an individual, firm, entity or organisation to whom or to which Professional Activities are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.

Code means APES 110 *Code of Ethics for Professional Accountants*.

Contingent Fee means a fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the Firm. A fee that is established by a court or other public authority is not a Contingent Fee.

Disclosure Document means a disclosure document as defined in the *Corporations Act 2001*.

Engagement means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of Professional Services by a Member in Public Practice. However, consultations with a prospective Client prior to such agreement are not part of an Engagement.

Engagement Document means the document (i.e. letter, agreement or any other appropriate means) in which the Terms of Engagement are specified in a written form.

Engagement Partner means the Partner or other person in the Firm who is responsible for the Engagement and its performance, and for the report that is issued on behalf of the Firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Engagement Period starts when the Firm accepts the Reporting Service Engagement and ends on the day the securities are allotted.

Engagement Team means all Partners and staff performing the Engagement, and any individuals engaged by the Firm or a Network Firm who perform procedures on the Engagement. This excludes External Experts engaged by the Firm or a Network Firm.

External Expert means an individual (who is not a Partner or a member of the professional staff, including temporary staff, of the Firm or a Network Firm) or organisation possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the Member in obtaining sufficient appropriate evidence.

Financial Interest means an interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

Firm means:

- (a) A sole practitioner, partnership, corporation or other entity of professional accountants;
- (b) An entity that controls such parties, through ownership, management or other means;
- (c) An entity controlled by such parties, through ownership, management or other means;
or
- (d) An Auditor-General's office or department.

Independence is:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a Firm's, or a member of the Engagement Team's, integrity, objectivity or professional scepticism has been compromised.

Member means a member of a Professional Body that has adopted this Standard as applicable to their membership, as defined by that Professional Body.

Member in Public Practice means a Member, irrespective of functional classification (e.g., audit, tax or consulting) in a Firm that provides Professional Services. This term is also used to refer to a Firm of Members in Public Practice and means a practice entity and a participant in that practice entity as defined by the applicable Professional Body.

Network means a larger structure:

- (a) That is aimed at co-operation; and
- (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

Network Firm means a Firm or entity that belongs to a Network.

Partner means any individual with authority to bind the Firm with respect to the performance of an Engagement.

Product Disclosure Statement means a statement as defined in Chapter 7 of the *Corporations Act 2001*.

Professional Activity means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting, and financial management.

Professional Bodies means Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

Professional Services means Professional Activities performed for Clients.

Professional Standards means all standards issued by Accounting Professional & Ethical Standards Board Limited and all professional and ethical requirements of the applicable Professional Body.

Prospective Financial Information means financial information of a predictive character based on assumptions about events that may occur in the future and on possible actions by an entity.

Prospectus means a prospectus as defined in the *Corporations Act 2001*.

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*.

Reporting Service Engagement means an Engagement in which a Member in Public Practice prepares a report on or in connection with Prospective Financial Information where such Prospective Financial Information or part thereof and the related report are included in a Public Document.

Those Charged with Governance means the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, Those Charged with Governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

3. Fundamental responsibilities of Members in Public Practice

3.1 Members in Public Practice undertaking Reporting Service Engagements shall comply with **Section 100 Introduction and Fundamental Principles** of the Code and relevant legislation.

3.2 Members in Public Practice shall comply with **Section 220 Conflicts of Interest** and **Section 280 Objectivity – All Services** in the Code

Public interest

3.3 In accordance with **Section 100 Introduction and Fundamental Principles** of the Code, Members in Public Practice shall observe and comply with their public interest obligations when they provide Professional Services in respect of Reporting Service Engagements.

Professional Independence

3.4 When engaged to perform a Reporting Service Engagement which requires Independence or purports to be independent, a Member in Public Practice shall comply with Independence as defined in this Standard.

- 3.5 A Member in Public Practice shall consider whether the circumstances of the Reporting Service Engagement make the Engagement an Assurance Engagement under the *Framework for Assurance Engagements* issued by the Auditing and Assurance Standards Board.
- 3.6 Where a Reporting Service Engagement is an Assurance Engagement, the Member in Public Practice shall comply with Section 290 *Independence – Audit and Review Engagements* or Section 291 *Independence – Other Assurance Engagements* of the Code, as applicable.
- 3.7 A Member in Public Practice shall not act as an advocate in respect of a Reporting Service Engagement which requires Independence or purports to be independent.

Professional competence and due care

- 3.8 Members in Public Practice performing Reporting Service Engagements shall maintain professional competence and take due care in the performance of their work in accordance with Section 130 *Professional Competence and Due Care* of the Code.
- 3.9 Where a Reporting Service Engagement requires the consideration of matters that are outside the professional expertise of the Member in Public Practice, the Member shall seek expert assistance or advice from a suitably qualified third party or decline the Reporting Service Engagement. Where the Member relies upon the advice of a third party, the Member shall disclose in the Member's report the name and qualifications of the third party and the area in the report where the third party advice has been obtained.
- 3.10 When planning to use the work of a suitably qualified third party, a Member in Public Practice shall assess the professional competence and objectivity of that third party and the appropriateness and adequacy of the work performed.
- 3.11 In undertaking a Reporting Service Engagement, a Member in Public Practice should consider the contents of any guidance in respect of such services issued by the Professional Bodies and appropriate regulatory authorities.

Confidentiality

- 3.12 In accordance with Section 140 *Confidentiality* of the Code, a Member in Public Practice who acquires confidential information in the course of a Reporting Service Engagement for a Client shall not use that information for any purpose other than the proper performance of the Reporting Service Engagement for that Client.
- 3.13 Unless a Member in Public Practice has a legal obligation of disclosure, the Member shall not convey any information relating to a Client's affairs to a third party without the Client's permission.
- 3.14 Where a Client has given a Member in Public Practice permission to disclose confidential information to a third party, it is preferable that this permission is in writing. Where oral permission is obtained, a contemporaneous note should be made and kept on file by the Member recording the relevant details of the Client's approval.
- 3.15 Where a Member in Public Practice provides confidential information in accordance with a legal obligation of disclosure, the Member shall notify the Client or the relevant third party as soon as practicable, provided that there is no legal prohibition against such notification.

4. Professional Engagement and other matters

- 4.1** A Member in Public Practice shall document and communicate the Terms of Engagement to provide the Reporting Service Engagement in accordance with APES 305 *Terms of Engagement*.
- 4.2** A Member in Public Practice who is approached by a potential Client to undertake a Reporting Service Engagement shall comply with the requirements of Section 210 *Professional Appointment* of the Code.
- 4.3** A Member in Public Practice who has utilised the services of a suitably qualified third party in connection with the performance of the Reporting Service Engagement shall not disclose the opinion or the name of that third party without the prior consent of that party unless the Member has a legal obligation of disclosure.
- 4.4** A Member in Public Practice shall gather sufficient and appropriate evidence by such means as inspection, inquiry, computation and analysis to ensure that the conclusions, for which the Member is responsible, are properly supported. When determining the extent and quality of evidence necessary, the Member shall exercise professional judgement, considering the nature of the Reporting Service Engagement, Terms of the Engagement and the use to which the Public Document will be put.

5. Relationships that create threats to the fundamental principles

- 5.1** This section describes specific circumstances arising out of relationships with the Client, which may create threats to the fundamental principles in the Code. Consideration should always be given to what a reasonable and informed third party having knowledge of all relevant information, including safeguards applied, would reasonably conclude to be unacceptable. In situations when no safeguards are available to reduce the threat to an Acceptable Level, the only possible actions are to eliminate the activities or interest creating the threat, or refuse to accept or continue the Reporting Service Engagement.
- 5.2** Threats to the fundamental principles may be created by any of the following interests or relationships:
- Financial Interests;
 - Loans and guarantees;
 - Close business relationships with the Client;
 - Employment relationships with the Client; or
 - Family and personal relationships.

6. The provision of other Professional Services

- 6.1** The provision of other Professional Services by a Member in Public Practice to the Client may create threats to compliance with the fundamental principles in the Code. Consequently, it is necessary to evaluate the significance of any threat created by the provision of such Professional Services. In some cases it may be possible to eliminate or reduce such threats by applying safeguards. In other cases no safeguards may be available to reduce the threats to an Acceptable Level. In such a situation, either the Reporting Service Engagement or the other Professional Services should not be carried out. In this Standard "other Professional Services" comprise any Engagement in which a Member provides Professional Services to a Client other than pursuant to a Reporting Service Engagement.

- 6.2 Prior to accepting an Engagement to provide other Professional Services, the Member in Public Practice shall consider and evaluate the significance of any threats identified. If the threats are other than insignificant, the Member shall consider and apply safeguards as necessary to reduce the threats to an Acceptable Level.
- 6.3 A Member in Public Practice shall refuse an Engagement to provide other Professional Services in circumstances where, the Engagement Partner responsible for the Reporting Service Engagement considers it probable that a reasonable and informed third party having knowledge of all relevant information including safeguards applied would regard the objectives of the Engagement to provide the other Professional Service, proposed to be undertaken during the Engagement Period, as being inconsistent with the objectives of the Reporting Service Engagement.

7. Documentation

- 7.1 A Member in Public Practice shall prepare working papers in accordance with this Standard that appropriately document the work performed, including aspects of the Engagement that have been provided in writing. The documentation prepared by the Member shall:
- (a) provide a sufficient and appropriate record of the procedures performed for the Reporting Service Engagement;
 - (b) identify the source of significant information the Member has used in the conduct of the Reporting Service Engagement; and
 - (c) demonstrate that the Reporting Service Engagement was carried out in accordance with this Standard and all other Professional Standards applicable to the Reporting Service Engagement, including policies and procedures established in accordance with APES 320 *Quality Control for Firms*, and any applicable ethical, legal and regulatory requirements.

8. Reporting

- 8.1 A Member in Public Practice shall take all reasonable steps in accordance with the terms of Engagement to ensure that the Prospective Financial Information that is the subject of the Reporting Service Engagement does not contain false or misleading information, or omit material information.
- 8.2 A Member in Public Practice shall take all reasonable steps in accordance with the terms of Engagement, to ensure that the Public Document clearly states the basis(es) and key assumptions used in forecasting the Prospective Financial Information.
- 8.3 If, subsequent to the issue of a Public Document, the Member in Public Practice finds that information on which the Reporting Service Engagement is based contains false or misleading information or omits material information, the Member shall take all reasonable steps to ensure that the Client takes appropriate action to inform anyone who received the previously issued Public Document of the situation.
- 8.4 If the Member in Public Practice becomes aware that the Client has not taken appropriate action in terms of paragraph 8.3, the Member shall notify Those Charged with Governance of the Client.

8.5 If the Member in Public Practice becomes aware that Those Charged with Governance have not taken appropriate action in accordance with paragraph 8.4, the Member shall consider the Firm's policies and procedures established in accordance with *Acceptance and Continuance of Client Relationships and Specific Engagements* of APES 320 *Quality Control for Firms* in determining whether to continue acting for the Client in a professional capacity.

8.6 A Member in Public Practice shall not knowingly or recklessly make a statement or cause another to make a statement in or in connection with a Reporting Service Engagement that, by its content or by an omission, is false or misleading in a material manner.

9. Communication with Those Charged with Governance

9.1 The Member in Public Practice shall ensure that Those Charged with Governance of the Client, and any other persons or entities the Member is instructed to advise, are appropriately informed on a timely basis of all significant matters arising from the Reporting Service Engagement.

9.2 Matters communicated will generally include the key elements of the Member in Public Practice's consideration of significant matters such as:

- The principal threats, if any, to objectivity and Independence identified by the Member, including consideration of relationships between the Firm and the Client, its related entities and directors and any other entities directly involved in the transaction which is the subject of the Public Document;
- Any safeguards adopted and the reasons why they are considered to be effective;
- The overall assessment of threats and safeguards; and
- Information about the general policies and processes within the Firm for maintaining objectivity and Independence.

10. Professional fees

10.1 A Member in Public Practice undertaking a Reporting Service Engagement shall be remunerated for such Professional Services by way of professional fees computed in accordance with Section 240 *Fees and Other Types of Remuneration* of the Code.

10.2 A Member in Public Practice shall not enter into a Contingent Fee arrangement or receive a Contingent Fee for a Reporting Service Engagement requiring Independence or which purports to be independent.

11. Threatened and actual litigation

11.1 Where litigation between the Client or its related entities and the Firm, which is other than insignificant, is already in progress, or where the Member in Public Practice considers such litigation to be probable, the Member shall consider the Firm's policies and procedures established in accordance with *Acceptance and Continuance of Client Relationships and Specific Engagements* of APES 320 *Quality Control for Firms* in determining whether to continue acting for the Client in a professional capacity.

Conformity with International Pronouncements

The International Ethics Standards Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES 345.

Appendix 1

Summary of revisions to the previous APES 345 (Issued November 2008)

APES 345 *Reporting on Prospective Financial Information prepared in connection with a Public Document* originally issued in November 2008 has been revised by APESB in October 2015. A summary of the revisions is given in the table below.

Table of revisions*

Paragraph affected	How affected
1.1	Added
1.2 – Paragraph 1.1 in existing APES 345 relocated	Amended
1.3 – Paragraph 1.2 in existing APES 345 relocated	Amended
1.8 – Paragraph 1.7 in existing APES 345 relocated	Amended
1.9 – Paragraph 1.8 in existing APES 345 relocated	Amended
1.11	Added
2 – Definition of Acceptable Level	Amended
2 – Definition of Assurance Engagement	Amended
2 – Definition of AUASB	Added
2 – Definition of Client	Amended
2 – Definition of Contingent Fee	Added
2 – Definition of Engagement Team	Amended
2 – Definition of External Expert	Added
2 – Definition of Financial Interest	Amended
2 – Definition of Firm	Amended
2 – Definition of Independence	Amended
2 – Definition of Member	Added
2 – Definition of Member in Public Practice	Amended
2 – Definition of Network	Added
2 – Definition of Network Firm	Added
2 – Definition of Product Disclosure Statement	Amended
2 – Definition of Professional Activity	Added
2 – Definition of Professional Bodies	Added
2 – Definition of Professional Services	Amended
2 – Definition of Professional Standards	Amended
2 – Definition of Public Document	Added
2 – Definition of Reporting Service Engagement	Amended
2 – Definition of Those Charged with Governance	Amended
3.6	Amended
3.11	Amended
4.4	Amended
5.2	Amended
8.2	Amended
8.3	Amended
9.2	Amended
10.1	Amended

* Refer Technical Update 2015/8

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 8.1

Meeting date: 8 February 2018

Subject: Modified audit reports

Date: 23 January 2018

Prepared by: Peyman Momenan

<input type="checkbox"/> Action Required	<input checked="" type="checkbox"/> For Information Purposes Only
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Objective

For the Board to note the summary of modified auditor reports received by the XRB between 1 August 2017 and 31 December 2017.

Introduction

1. In September 2016, the XRB approved a policy for dealing with modified audit reports received under the Companies Act 1993 and the Financial Markets Conduct Act 2013. The policy requires the NZAuASB to consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any issue about the appropriateness, applicability, clarity and/or completeness of the relevant standards.
2. In December 2016, the policy was supplemented by an operating procedure (OP) document including specific actions that the XRB and its boards (including the NZAuASB) need to take to operationalise the policy. The OP requires the NZAuASB staff to review the received modified audit reports in order to:
 - Categories of modified audit opinions that affect auditing & assurance standards
 - Identify trends, if any
 - Refer any strategy-related issues to the XRB Board staff team, as appropriate
 - Make appropriate recommendation to NZAuASB, as necessary
3. The OP requires staff to report to the NZAuASB at least every 6 months on matters including:
 - the number of audit reports received
 - the types of modified audit opinions
 - the nature/subject matter of the modified opinions
 - whether the modified audit opinions have implications for any XRB standards and/or XRB strategy/standards frameworks
 - any emerging trends.

4. The Board had previously seen the summary of modified audit reports up to end of July 2017 at the September 2017 meeting. This report is a catch up for the modified audit reports received since. This report is the second report under the XRB modified auditor report policy. The next report will be presented at the Board's July 2018 meeting.

Matters to consider

5. We have prepared a summary of the reasons for the qualifications by modification type with a view to consider if there are any implications for the XRB standards. A summary of the reasons for the modified audit reports received from 1 August 2017 to 31 December 2017 is attached at agenda item.
6. We have not identified any implications for the auditing and assurance standards and have no recommendations for further action required by the NZAuASB. It is worth mentioning that the accounting staff have also not identified any implications for the accounting standards when they presented their analysis to NZASB in December 2017. The overall conclusions are due to be presented to the XRB Board in March 2018.

Recommendations

7. It is recommended that the Board **NOTE** the contents of this report.

Material Presented

Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	Summary of modifications

Modified Auditor Reports received by the XRB between 1/8/2017 and 31/12/2017**A) Modified Auditor Reports**

Modification in relation to	Adverse Opinion	Disclaimer of Opinion	Qualified Opinion		Grand Total	
	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence
Appropriateness of using the Going Concern assumption		1				1
Unable to access evidence and accounting records		1				1
Valuation of financial assets			1		1	
Valuation of Investment in associated entities				1	1	2
Total		2	1	1	1	3

Modified Auditor Reports received by the XRB between 1/8/2017 and 31/12/2017

ID number ¹ Nature of industry Balance date Audit report date	Type of modified audit opinion	Accounting standard(s) affected	Proposed action
147 Exploration, development and production of coal 30 Jun 2017 31 Aug 2017	Qualified opinion Departure from NZ IFRS and IFRS Standards. The entity has redeemable convertible preference shares. This is a hybrid instrument of debt and equity. The embedded conversion options have been classified as equity. In accordance with IFRIC Update April 2015, the embedded conversion options meet the definition of financial liabilities rather than equity.	NZ IAS 32 <i>Financial Instruments: Presentation</i> NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Nil. We did not identify any issues with the auditing standard. This is an accounting judgement made by the entity's management.
148 Investment company in the food, beverage and hospitality sectors 30 Jun 2017 21 Sep 2017	Disclaimer of opinion Unable to obtain sufficient appropriate audit evidence to support the carrying value of the net assets, going concern assumption is appropriate and recoverability of receivables.	NZ IAS 1 <i>Presentation of Financial Statements</i> NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Nil. We did not identify any issues with the auditing standards.
149 Freight and warehousing 31 Dec 2016 30 Oct 2017	Disclaimer of opinion Unable to obtain sufficient appropriate audit evidence over the subsidiary's revenue, cost of sales and other expenses.	NZ IAS 1 <i>Presentation of Financial Statements</i> NZ IFRS 10 <i>Consolidated Financial Statements</i>	Nil. We did not identify any issues with the underlying auditing standards.
150 Meat processing and exporting 31 Mar 2017 31 Oct 2017	Qualified opinion Unable to obtain sufficient appropriate audit evidence over the carrying amount of the investment in an associate.	NZ IAS 28 <i>Investments in Associates and Joint Ventures</i>	Nil. We did not identify any issues with the underlying auditing standards.

¹ From internal database.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 9.1

Meeting date: 8 February 2018

Subject: Guidance for Prescribers

Date: 23 January 2018

Prepared by: Peyman Momenan

☒ **Action Required** ☐ **For Information Purposes Only**

Objective

For the Board to consider, provide feedback and approve the proposed action plan for distributing the guidance for prescribers of assurance engagements.

Introduction

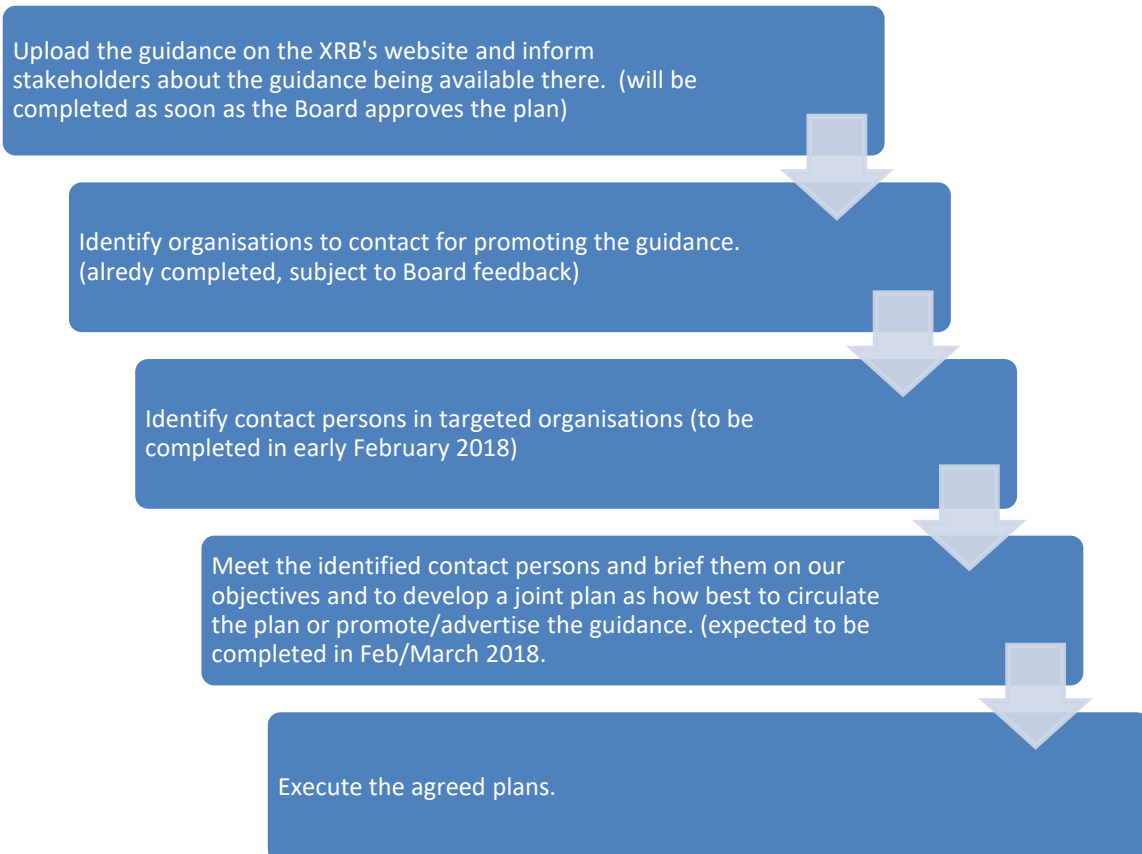
1. In October 2017, the Board approved “Requiring Assurance Engagements: a guide for prescribers of assurance engagements” and requested us to develop a plan on how this guidance will be circulated to users. This Agenda item includes our proposed plan for circulation of the guidance.

The proposed circulation plan

2. The proposed circulation plan has two parts. Part 1 of the plan is to use the XRB’s existing platforms (i.e. the website and the NZAuASB’s newsletters and communiques).
3. Part 2 of the plan involves contacting external organisations that are either known to prescribe assurance engagements and/or have established networks to reach such prescribers. The following table includes a list of organisations that we have identified as potential candidates for Part 2 of the plan:

Type	Organisation
Government and Crown organisations	<ol style="list-style-type: none"> 1. The All of Government Consultancy Services 2. Commerce Commission New Zealand 3. The Financial Market Authority (FMA) 4. The Office of Auditor-General (OAG) 5. Ministry of Education 6. Ministry of Health 7. Ministry of Social Development 8. Callaghan Innovation 9. New Zealand Treasury 10. The Reserve Bank of New Zealand
Professional bodies	<ol style="list-style-type: none"> 11. Chartered Accountants New Zealand and Australia (CAANZ) 12. CPA Australia 13. Institute of Directors (IoD)

4. To execute plan B, we will need to establish an appropriate contact point in each organisation. We appreciate any assistance from that Board members in this regard.
5. Once contacts are established, the contact persons will be met and briefed on the purpose of the guide. We will then establish how the guidance should be distributed.
6. An overview of the proposed action plan (including some indicated time-frames) is presented below.



Recommendations

7. It is recommended that the Board **CONSIDER**, and **APPROVE** the proposed plan.

Material Presented

Agenda item 9.1

Board Meeting Summary Paper



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 25 January 2018

TO: Members of the New Zealand Auditing and Assurance Standards Board

FROM: Peyman Momenan

SUBJECT: International Update

Introduction

1. This Update summarises the significant news of the IAASB, other national auditing standards-setting bodies and professional organisations for the Board's information, for November 2017 to January 2018.

International Federation of Accountants (IFAC)

1. IFAC published [Focusing on Performance](#), which is designed to raise awareness of the importance among PAOs to consider the suggested best governance practices and principles while reflecting on their current governance arrangements. The publication also features a self-assessment tool that PAOs can repeatedly utilize when reviewing the principles and their governance framework.
2. IFAC published [its initial views on the Monitoring Group Consultation Paper](#) in December 2017. IFAC has concerns about a number of the proposals. Significantly, the Consultation Paper does not provide respondents a complete picture of what the Monitoring Group envisages for standard setting, including fundamental elements of the model with respect to funding, transition, and implementation risks, and the roles of the Monitoring Group and Public Interest Oversight Board (PIOB)—and in parts the Consultation Paper fails to accurately reflect the current arrangements, and offers proposals that are contrary to the stated aims.

International Auditing and Assurance Standards Board (IAASB)

1. The Data Analytic Working Group (DAWG) issued the [Feedback Statement](#) prepared by the DAWG and staff of the IAASB on exploring the growing use of technology in the audit, with a focus on data analytics. This Feedback Statement provides an overview of the key messages from the responses to the questions in the Request for Input (RFI), Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics. RFI. The views expressed offered valuable insights relevant to the ongoing work of the IAASB.
2. The IAASB's Emerging forms of External Reporting (EER) Task Force developed [a Feedback Statement](#) to highlight the responses received on the August 2016 Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements. This Feedback Statement provides an overview of the key messages from the responses to the questions in the Discussion Paper. The responses have helped inform the IAASB as to what its next steps should be to progress with its project in this area. To further its work in this area, the IAASB approved a project proposal in October 2017. [The project](#) is intended to develop new non-authoritative guidance to address key challenges, identified by the IAASB, which arise in the performance of assurance engagements over EER in applying ISAE 3000 (Revised).

3. IAASB published in January 2018 a [publication that outlines what an agreed-upon procedures engagements is](#), identifies the benefits to clients of offering such services, and when such engagements are appropriate. It also covers examples of financial and non-financial information AUP engagements and six short case studies with example procedures that might be applied.
4. IAASB Ongoing projects (refer to appendix 1)

International Ethics Standards Board for Accountants (IESBA)

1. The IFAC Small and Medium Practices (SMP) Committee submitted [this comment letter](#) to the IESBA in response to its Exposure Draft, Proposed Revisions to the Code Pertaining to the Offering and Acceptance of Inducements. The Committee believes that the initial objective of the ED in strengthening the provisions in extant Part C to assist professional accountants in better dealing with the offering and accepting of inducements while complying with the fundamental principles, in particular the principles of integrity, objectivity and professional behavior should be commended.

However, in its final iteration, it appears that the proposals are far more rules-based than the current threats and safeguards (principles-based) approach in other parts of the Code of Ethics for Professional Accountants. The Committee believes that while the concept of “improper intent” is generally well understood on an intuitive level, it is less suitable to make such a distinction in a global Code. Cultural differences do have a role and intentions by their nature can never be fully known to anyone other than the intender (unless they have been openly expressed). The Committee remains concerned about the level of detail in the revised inducement provisions, which in combination with possible expectations on the part of regulators, could lead to overly onerous documentation—in particular for those working in small- and medium-sized practices.

Accountancy Europe (AE) (former FEE)

1. AE published [Auditor's role in fighting financial crime Standing up to fraud, corruption and money laundering](#) in December 2017. This information paper aims to clarify the role of statutory auditors in standing up to financial crimes. Their role is defined by auditing standards and by specific legislation. These responsibilities also draw on ethics and professional scepticism, part of the principles that all statutory auditors need to adhere to. Combatting fraud, corruption and money laundering must be a joint effort of all relevant parties, including business leaders, the accountancy profession, regulators, standard setters and the financial sector. IE calls for a coordinated approach and commitment of all the key players to achieve tangible results.

Public Interest Oversight Board of IFAC (PIOB)

1. The PIOB held its quarterly meeting in Madrid on 13-15th December 2017. The PIOB discussed the Public Interest issues identified in the current projects of the IAASB and IESBA, and approved the PIOB Oversight Plans for 2018. The Monitoring Group reforms were discussed during the PIOB private session, as well as the Public Interest Framework document being developed by the PIOB.

International Integrated Reporting Council (IIRC)

1. There have been no significant developments related to audit and assurance to report in the period.

Global Reporting Initiative (GRI)

1. There have been no significant developments related to audit and assurance to report in the period.

International Forum of Independent Audit Regulators (IFIAR)

1. There have been no significant developments related to audit and assurance to report in the period..

International Organization of Supreme Audit Institutions (INTOSAI)

1. There have been no significant developments related to audit and assurance to report in the period.

International Organization of Securities Commissions (IOSCO)

1. There have been no significant developments related to audit and assurance to report in the period.

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. Highlights from the November 2017 AUASB meeting include:
 - The AUASB received an update on the work the Financial Reporting Council is currently engaged in through a presentation from the FRC Chair Bill Edge. The AUASB discussed recent press articles on audit quality containing observations critical of the profession by the former ASIC Chair and considered how the AUASB can assist with and respond to real or perceived audit quality issues arising from this recent topic. The AUASB acknowledged that their role on this topic will focus primarily on challenges practitioners and regulators have in interpreting auditing standards or guidance.
 - The AUASB received an update on current projects from IAASB members Fiona Campbell and Lyn Provost. The AUASB discussed the AUASB's plan for its consultation activities and final response to the Monitoring Group Consultation Paper – Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest. Outreach activities on this matter are currently being planned with other impacted stakeholders to ensure knowledge can be shared and reduce duplication of effort. Details of outreach events on this topic will be communicated shortly.
 - The AUASB discussed feedback received from constituents at the AUASB-UNSW Roundtable held in Sydney on 13 October 2017 and the AUASB Agenda Consultation Forums held in November 2017 at various locations. Participants at these sessions were invited to provide feedback on the AUASB's most recent technical work program and current strategic projects. Stakeholders provided positive feedback that the technical work program was appropriate and that the AUASB was addressing relevant strategic projects. The AUASB acknowledged that the technical work program will likely be amended based on timing of when projects are likely to be completed by the IAASB. The AUASB discussed stakeholder's commentary on the need for timelier action by the AUASB in relation to providing guidance for local practitioners in relation to the application of Data Analytics in the audit and requested the AUASB to make this area a higher priority in its current work program. A separate summary of matters raised by participants at the AUASB Agenda Consultation Forums held in November 2017 will be prepared and the current AUASB technical work program updated in early 2018 to reflect the feedback received from stakeholders at these sessions.
 - The AUASB discussed the need for a revision to GS 010 *Responding to Questions at an Annual General Meeting*. While the AUASB agreed that such a revision would remain on the AUASB's technical work program, the AUASB did not consider this to be a priority project and accordingly the guidance would not be updated at this time.
 - The AUASB were presented with a summary of the latest exposure draft from the New Zealand Auditing Standards Board (NZAuASB), ED 2017-2 Service Performance Information. AUASB Members were very complimentary of the work the NZAuASB and its staff had done on the ED and noted a number of innovative methods the NZAuASB had applied to address some of the challenges faced by assurance practitioners who operate in the NZ Charities and Not-for-profit sector. AUASB Members discussed some of the differences between the Australian and New Zealand jurisdictions with regard to reporting service performance information, which would need further consideration should an equivalent assurance standard be developed in Australia. The AUASB authorised the

AUASB Technical Group to develop a response to key questions which the NZAuASB has requested feedback on in the Invitation to Comment released with the exposure draft.

- The AUASB considered and provided feedback on draft ASA 2017-3 Amending Standard to ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* and draft ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. The AUASB requested the drafts to be brought back to the 7 March 2018 AUASB meeting for final consideration and approval to issue.

The Australian Securities & Investments Commission (ASIC)

1. There have been no significant developments related to audit and assurance to report in the period.

United Kingdom

Financial Reporting Council (FRC)

1. FRC published [Audit Quality Thematic Review: Materiality](#) in December 2017. This report follows up a thematic review in 2013 before the transparency requirements were introduced. The FRC found that audit firms have improved their methodologies and guidance, particularly for certain industry sectors and first year audits. The report also notes that audit committees are increasingly engaging with the auditor to understand and agree the materiality threshold used. Investors and audit committees would like auditors to go further in their communications, explain the rationale and impact on the focus of the audit when the materiality threshold is higher than industry norms; uses alternative performance measures as a basis; is lower in the face of internal control weaknesses or has been tailored for specific items and balances.
2. Audit Committee reports create trust and confidence among investors according to [a new report](#) from the Financial Reporting Council (FRC). Investors gain valuable insight into the effectiveness of audit committees and the quality and rigour of their work from the reports which they have been obliged to provide in the company's annual report, since 2012. Investors welcome that the interests of the company's shareholders are represented in matters of financial reporting, external and internal audit, and internal control. However, investors and audit committees consider that lengthy, compliance driven reports risk hiding key information. Investors encourage 'comply or explain' reporting instead. Furthermore, investors and audit committee chairs recognise that there is scope for more engagement between them.

Institute of Chartered Accountants in England and Wales

1. ICAEW [believes](#) that an important audit function is, and always has been, providing assurance that corporate reports contain correct and trustworthy information. However, the expectation gap between what is being audited and what people believe should be audited is an ongoing issue. ICAEW believes there is a demand for enhanced corporate reporting and greater assurance and if professional accountant can meet this demand, capital markets should function more effectively and trust in business should increase.
2. ICAEW [believes](#) that an existing issue that challenges the future of audit is whether people still trust in auditors and its relevance. Relevance is increasingly a challenge. Many of the governance and financial scandals of recent years have been less about immediate past financial loss (the historical subject of audit) and more about behavioural issues. This suggests that management either is not in sufficient control, that it condones inappropriate behaviour for the sake of short-term results (and therefore perhaps for short-term personal pecuniary gain) or, indeed, that it just doesn't care very much about certain groups of stakeholders.

These issues all go straight to value, irrespective of immediate financial loss through error or fraud. With 80% or more of companies' stock-market values being assets that aren't on a balance sheet auditors are only examining, in strict terms, those that are.

These non-financial assets may well be expressed in financial terms, such as the future expected value of cash returns to investors, but the reality is that to a large extent they represent the value of a company's people and their collective skills and the reputational and brand advantages they create or maintain.

These assets (or their stock-market measurement) are the ones that scandals quickly erode. They are unlikely to directly affect the values of receivables or payables, which will have been subject of much audit effort.

Can the audit really be wholly relevant when it deals with a small part of company value, or do audit committees have to augment their stewardship function by seeking assurance over the culture of the company and its practical application of good governance through its critical operations?

The Charity Commission

- The Charity Commission published [Reporting relevant matters of interest to UK charity regulators](#) in November 2017. This publication is issued by the UK charity regulators and provides examples of where auditors and independent examiners can usefully use their discretion to report relevant matters of interest to the regulators. Charity law provides auditors and independent examiners with a legal protection when they exercise their discretion to report significant matters that they believe relevant to the work of the charity regulator. The Commission is keen to encourage such reporting because it provides useful information on significant issues facing charity trustees and gives the Commission an opportunity to provide advice and guidance to charity trustees or to make a timely regulatory intervention if this is judged appropriate to the charity's circumstances.
 - The examples given cover a number of scenarios:
 - although it is not an amount material to the accounts a breach of trust where the trustees have taken no remedial action
 - a donation from an unknown source with conditions where the trustees have not notified the regulator
 - uncertainty over the renewal of a contract which is a material source of income to the charity
 - over reliance on a key individual

United States of America

Public Company Accounting Oversight Board (PCAOB)

1. PCAOB Published [Staff Guidance on Implementing Changes to Auditor's Report](#). The guidance addresses key changes to the auditor's report required this year, such as the form of the auditor's report, disclosure of auditor tenure, a statement on auditor independence, and a required explanatory paragraph on Internal Control Over Financial Reporting (ICFR) in certain circumstances.

American Institute of Certified Public Accountants (AICPA)

1. There have been no significant developments related to audit and assurance to report in the period.

Center for Audit Quality (CAQ) - (affiliated with AICPA)

1. has issued a new tool that flags key considerations and questions for audit committees as implementation of the Public Company Accounting Oversight Board's new auditor's reporting model gets underway. [The Auditor's Report: Considerations for Audit Committees](#) explains changes to the auditor's report and lists key questions on topics including auditor tenure, Critical Audit Matters (CAMs) and other new requirements. The new auditor's reporting model is to be implemented with a phased approach, and the tool provides a timeline for implementation deadlines.

Canada

Canadian Auditing and Assurance Standards Board (CAASB)

1. Highlights from the December 2017 CAASB meeting include:
 - The AASB provided input to the CPA Canada nominee on the International Auditing and Assurance Standards Board (IAASB) on issues related to the IAASB's project to revise ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures. Key issues discussed included:
 - using the spectrum of risk to demonstrate scalability and possible other approaches for scalability;
 - adding wording to enhance the application of professional skepticism;
 - the appropriateness of possibly elevating certain application material to requirements; and
 - the disposition of significant issues in the revised draft of ISA 540 resulting from the responses received to the Exposure Draft.
 - The Board discussed issues related to the CASs on auditor reporting, including:
 - key audit matter reporting for TSX-listed entities;
 - activities underway to investigate the implications of disclosing the engagement partner's name in the auditor's report; and
 - the status of activities related to developing a combined U.S. and Canadian auditor's report, and the potential for acceptance by the U.S. Securities and Exchange Commission.
 - The Board provided input to the CPA Canada nominee on the IAASB on issues related to the IAASB's project to amend ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, including:
 - changes to key definitions such as "qualitative inherent risk factors" and "significant class of transactions, account balance or disclosure";
 - requirements related to understanding each component of internal controls; and
 - requirements to identify and assess the risks of material misstatement, including inherent and control risks.

CPA Canada

1. There have been no significant developments related to audit and assurance to report in the period.

Appendix A: IAASB Project and their latest status.

Project	Overview of the project and its current status
<p>Quality Control (Has update for the period)</p>	<p>Objective of the Project: Initial activities in scoping the project will focus on whether there is a need to revisit specific aspects of the quality control standards to enhance clarity and consistency of their application. This may include restructuring ISQC 1, additional requirements or guidance within the standard or additional guidance in support of the standard. Specific aspects within ISQC 1 and ISA 220 being explored include, governance, engagement partner responsibilities, engagement quality control reviews, monitoring, remediation, alternative audit delivery models and specific issues pertaining to small- and medium-sized practices</p> <p>Background and current status: The proposed changes to QC were included in the IAASB Audit Quality ITC. The ITC response period is closed now. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, and developed project proposals for quality control that were presented at the September 2016 IAASB meeting.</p> <p>The IAASB considered the Quality Control Other Working Group's (QCOWG) proposals in respect of:</p> <ul style="list-style-type: none"> • Setting the objective of an engagement quality control (EQC) Revising the definition of an EQC review; • Determining the scope of the engagements subject to an EQC review; and • The execution of an EQC review. <p>At its March 2017 meeting, the IAASB discussed matters to do with the eligibility of the engagement quality control reviewer.</p> <p>QC-Firm Level</p> <p>In June 2017 the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC 1, a result of incorporating a quality management approach (QMA) into ISQC 1, that included a discussion of a working draft of ISQC 1 (Revised) and how the proposals are expected to change firm behaviors. The Board was supportive of the overall direction proposed by the QCTF and emphasized the importance of outreach with a variety of stakeholders to seek input on the practicality of the proposals. The Board also encouraged the QCTF to develop guidance and examples to accompany the revised standard in order to explain the implementation and application of the standard.</p> <p>In its September 2017, the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC1 in relation to documentation of the system of quality management. The Board was supportive of the QCTF's proposals and suggested various refinements. Some of the key proposals were as follow:</p> <ul style="list-style-type: none"> • the proposal to retain the requirement for an EQC review for all audits of financial statements of listed entities, i.e., not only for general purpose financial statements

Appendix A: IAASB Project and their latest status.

	<ul style="list-style-type: none"> the proposals in relation to other engagements for which the firm determines that an EQC review is required (see here for details) the objective of ISQC 2, including whether it is appropriate to locate the responsibilities of the EQC reviewer in ISQC 2, instead of ISA 220 the IAASB supports the proposal to remove the reference to “team” from the definition of an EQC reviewer, and instead explain the use of a team in the application material supporting the appointment of the EQC reviewer the proposed requirements and application material in relation to the eligibility of the EQC reviewer. <p>The Board also discussed the QCTF’s recommendations in relation to EQC reviews that would be incorporated in ISQC 1 and the proposed new standard, ISQC2. The Board confirmed that the purpose of the EQC review is to evaluate the significant judgments made by the engagement team. In addition to various recommendations to further enhance and clarify the various requirements and application material, the Board encouraged the QCTF to improve the robustness of the requirement relating to the scope of the engagements subject to EQC review.</p> <p>Update for the period</p> <p>(END OF UPDATE)</p> <p>Quality Control – Engagement Level</p> <p>In December 2017, The IAASB supported the direction of the proposed changes to ISA 220.4 In particular, the Board supported the proposed changes that emphasize that the engagement partner is responsible and accountable for audit quality. The Board encouraged the ISA 220 Task Force to consider, as it progresses revisions to ISA 220, how the proposed changes will strengthen the performance of quality audits.</p> <p>Quality Control – Firm Level</p> <p>In December 2017, the Board discussed a first read of the proposed exposure draft of ISQC 1 (Revised) 5 and was broadly supportive of the direction of the standard. The Board focused on the scalability of the standard, clarifying the interrelationship of the components, and the appropriate placement of the governance and leadership component. As well as requesting the Task Force to clarify the meaning of deficiencies and major deficiencies, the Board asked that a framework be developed for assessing deficiencies in the system of quality management and requested clarification of how such deficiencies may impact the achievement of the overall objective of the standard. The Board also asked the Task Force to reconsider the threshold for the identification of quality risks and encouraged the Task Force to explore the development of appropriate guidance to accompany the proposed exposure draft that addresses the application of the standard to a spectrum of firms.</p> <p>The Task Force will continue to progress the proposed changes to the standard for a second read of an exposure draft in March 2018.</p>
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Appendix A: IAASB Project and their latest status.

<p>Group Audits– ISA 600 (has update for the period)</p>	<p>Objective of the project: Determining the nature of the IAASB’s response to issues that have been identified, relating to Group Audits, from the ISA Implementation Monitoring project and outreach activities, inspection reports from audit regulators, discussion with NSS and responses to the IAASB’s Work Plan consultation (i.e., whether standard-setting activities are appropriate to address the issues, and if so, whether specific enhancements within ISA 600 or a more holistic approach to the standard would be more appropriate).</p> <p>Background and current status: The IAASB commenced work on one aspect of this project relating to the responsibilities of the engagement partner in circumstances where the engagement partner is not located where the majority of the audit work is performed in December 2014. A Staff Audit Practice Alert on this aspect was published in August 2015. Information gathering on the broader aspects of group audits commenced in March 2015.</p> <p>The issues identified and discussed at the IAASB meetings form part of a combined Invitation to Comment on Enhancing Audit Quality in the public interest which was issued in December 2015 and is open for comments till May 16, 2016. The ITC is now closed. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p> <p>In its June 2017 meeting, the IAASB received an update on the activities of the GATF. The IAASB supported the proposal of the GATF to engage more directly with the QCTF, ISA 220 TF and ISA 315 (Revised)3 TF, to help ensure that the requirements in those standards provide appropriate connection points between those projects and ISA 600.4 The IAASB also supported the proposal of the GATF to publish a short project update and asked the GATF to consider topics that are related to standards not under revision, for example, materiality and audit evidence.</p> <p>Update for the period:</p> <p>In December 2017, the Board received a presentation about the interconnections between ISA 600 and other ongoing projects, and how the Task Force is monitoring the activities of the other task forces, providing input and considering implications of changes in the other standards on ISA 600.</p>
<p>Professional Scepticism (has update for the period)</p>	<p>Objective of the project: To make recommendations on how to more effectively respond to issues related to professional scepticism.</p> <p>Background and current status: The IAASB commenced its initial information gathering on the topic of professional scepticism in June 2015. The issues identified and discussed at the IAASB meetings are part of the Invitation to Comment on Enhancing Audit Quality in the Public Interest which was issued in December 2015 and is open for comments till May 16, 2016.</p> <p>The working group is comprised of representatives from the IAASB, the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) to explore the topic of professional scepticism, enabling the three independent standard-</p>

Appendix A: IAASB Project and their latest status.

	<p>setting Boards to consider what actions may be appropriate within their collective Standards and other potential outputs to enhance professional scepticism.</p> <p>Together with the Quality Control and ISA 600-Group Audits project, this project is part of the Audit Quality Enhancements Coordination Group (AQECG). The AQECG intends to coordinate the various inputs to the invitation to comment developed at the individual working group level, and take a holistic approach as to how the matters are presented in one invitation to comment. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p> <p>Subsequent to the December 2016 IAASB meeting, the joint PSWG held a teleconference to discuss matters related to potential changes to the concept/definition of professional scepticism in the ISAs. The March meeting papers are available here.</p> <p>In June 2017 meeting, the IAASB received an update on the activities of the Professional Skepticism Working Group (PSWG) and the Professional Skepticism IAASB Subgroup since the last Board meeting in March 2017. The Board supported the release of a communication to update stakeholders about the actions and current status of the PSWG's work. The Board also discussed the concept of "levels" of professional skepticism and supported the recommendations of the Professional Skepticism IAASB Subgroup not to introduce the concept into the ISAs.</p> <p>Update for the period:</p> <p>The IAASB discussed the Professional Skepticism Subgroup's analysis and related conclusions regarding different "mindset" concepts of professional skepticism and the use of the words in the ISAs in its December 2017. The Board supported the conclusions of the Subgroup, including that the current concept of the attitude of professional skepticism involving a "questioning mind" continues to be appropriate and should be retained within the ISAs. The IAASB Professional Skepticism Subgroup will liaise as needed with the Professional Skepticism Joint Working Group.</p>
<p>Accounting Estimates (ISA 540) and Special Audit Considerations Relevant to Financial Institutions (has update for the period)</p>	<p>Objective of the project: The objective of the financial institutions project is to:</p> <ul style="list-style-type: none"> A. Clarify and enhance the relationship between the banking supervisors and the bank's external auditors; B. Consider and address issues of particular significance in audits of financial institutions; and C. Consider as to whether the issues relating to ISA 540 that have been highlighted as particularly relevant to audits of banks and other financial institutions are more broadly applicable to other entities <p>Background and current status: The ISA Implementation Monitoring project, specific requests from banking and insurance regulators and outreach activities by the ISA 540 Working Group, have identified issues with respect to auditing accounting estimates, in particular in relation to audits of financial institutions. Also, inspection finding reports from audit regulatory bodies highlighted consistent issues with respect to the audit of accounting estimates, including</p>

Appendix A: IAASB Project and their latest status.

	<p>in relation to audits of financial institutions. There are areas where there have been calls for clearer or additional requirements or guidance to enable auditors to appropriately deal with increasingly complex accounting estimates and related disclosures, including obtaining sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements as a whole.</p> <p>A draft exposure draft of revised ISA 540 has been developed and is to be deliberated by IAASB with an approved ED expected to be issued for comment in December 2016. The board reviewed the draft in its June 2016 meeting.</p> <p>IAASB expects to complete its deliberation of responses to the exposure draft and resulting proposed changes to ISA 540 (Revised) in 2017 with the revised standard expected to be issued in last quarter of 2017.</p> <p>The IAASB has released the ED ISA 540 for comment in May 2017.</p> <p>The Board received an overview of the comment letters received on proposed ISA 540 (Revised) in its September 2017 meeting. The Board discussed respondents' concerns about the complexity of the proposed ISA and potential difficulties in understanding and applying it in practice, and asked the ISA 540 Task Force to look at ways to restructure the proposed ISA to improve its clarity and readability. The Board also discussed the scalability of the ISA, how risk factors could be taken into account, and how best to structure the response to the assessed risks of material misstatement. The Board highlighted the importance of achieving the right balance between issuing a high-quality standard and the public interest in finalizing the ISA in a timely fashion. The IAASB is holding an additional meeting in October to progress proposed ISA 540 (Revised).</p> <p>Update for the period:</p> <p>The IAASB discussed key issues raised by respondents in relation to the Exposure Draft of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures', including the scalability of the ISA, the use of the term "reasonable," the exercise of professional skepticism and the Task Force's approach to the application material. The IAASB also discussed the Task Force's revisions to requirements and application material based on comments received on the Exposure Draft. The IAASB asked the Task Force to focus on redrafting the application material according to the planned approach with a view to conducting a first read of ISA 540 (Revised)¹ in March 2018, ahead of a targeted approval in June 2018.</p>
<p>Data Analytics (has update for the period)</p>	<p>Objective of the project: The objective of the Data Analytics Working Group (WG) is to:</p> <ul style="list-style-type: none"> A) Explore emerging developments in audit data analytics; and B) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe. <p>Background and current status: Information gathering on data analytics began in April 2015 and the Data Analytics Working Group will continue with its planned outreach activities in future. The DWAG published its first publication</p>

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	<p>"The IAASB's Work to Explore the Growing Use of Technology in the Audit" in June 2016.</p> <p>At the March meeting, the IAASB received a video presentation of a panel discussion among members of the DAWG that was presented at the International Forum of Independent Audit Regulators Inspections Workshop.</p> <p>The Chair of the DAWG provides an update on the project in February 2017 on the IFAC website.</p> <p>In its June 2017 meeting, the IAASB received a presentation of high-level observations from respondents to the IAASB's Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics. It was noted that respondents supported the IAASB in undertaking this work and encouraged continued active participation of the Data Analytics Working Group in other current standard-setting projects of the IAASB underway.</p> <p>Update for the period</p> <p>The IAASB received a video presentation as well as feedback statement in regards to the outreach and responses received from the public. The update included, in broad the work done by the Working Group since the last board meeting, but specifically the opportunity to work with the ISA 315 (Revised) Task Force in developing specific application material relating to Data Analytics.</p>
<p>Emerging External Reporting (has update for the period)</p>	<p>Objective of the project: The objective of the Integrated Reporting Working Group (IRWG) is to:</p> <ul style="list-style-type: none"> A) Explore emerging developments in integrated reporting and other emerging developments in external reporting; B) Gather further information on the demand for assurance, the scope of the assurance engagement and the key assurance issues; and C) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe. <p>Background and current status: At its September 2014 meeting the Innovation WG proposed, and the IAASB agreed to establish a WG to specifically monitor the developing interest in integrated reporting and the demand for assurance on integrated reports. This includes initial thinking on the nature of such engagements, including the scope of the assurance engagement, the suitability of the criteria, and other matters related to assurance on integrated reports. The Board considered the draft working paper prepared by the IRWG Supporting Credibility and Trust in Emerging Forms of External Reporting in its June 2016.</p> <p>The Discussion Paper was issued in August 2016.</p> <p>In its June 2017 meeting, the IAASB received a presentation about the high-level observations from the comment letters received to the Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting. It was noted that respondents generally supported the development of guidance on how to apply existing international assurance standards rather than developing new standards, and that the IAASB should continue to provide</p>

Appendix A: IAASB Project and their latest status.

	<p>thought leadership on assurance issues and coordinate its work with other relevant organizations.</p> <p>Update for the period:</p> <p>The Board received an update on the project in December 2017. It was noted that the grant agreement with the World Business Council for Sustainable Development (WBCSD) was finalized for the funding of the project and that the Project Proposal and Feedback Statement has been finalized to be published on the IAASB's website. The board also received an update on the plan for developing the framework for the non-authoritative guidance for EER during the next year, including the required research to be gathered and the establishment of a Project Advisory Panel (PAP).</p>
Agreed-Upon Procedures	<p>The objective of the project is to:</p> <p>A) Revise International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information in the Clarity format; and</p> <p>B) Consider whether standard-setting or other activities may be appropriate for engagements that use a combination of procedures derived from review, compilation and agreed-upon procedures engagements (also known as "hybrid engagements"), in light of the existing standards that may be applicable to these services in the IAASB's current suite of standards.</p> <p>Background and current status: During consultations on the IAASB's 2015-2019 Strategy and the related 2015-2016 Work Plan, many stakeholders expressed the need to revise ISRS 4400 to meet the growing demand for agreed-upon procedure engagements. In response to the stakeholders' comments, the IAASB established a working group to explore issues involving agreed-upon procedure engagements. The issues identified and discussed at the IAASB meetings will be used to revise ISRS 4400 and possibly develop new standard(s) or guidance that would address engagements where there is a combination of agreed-upon procedures and assurance.</p> <p>The Agreed-Upon Procedures (AUP) Working Group presented a first draft of its Discussion Paper, <i>Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards</i>, to the Board in June 2016. The IAASB provided the AUP Working Group with input to enhance the Discussion Paper and suggested that the paper pose a question to explore whether the IAASB should develop guidance on multi-scope engagements. The AUP Working Group will present a revised draft of the Discussion Paper at the September 2016 IAASB meeting.</p> <p>In its September 2017 meeting, the Board discussed the feedback received on the Discussion Paper and approved a standard-setting project proposal to revise ISRS 4400, subject to clarifications around the use of judgment, independence, restriction of the report of factual findings and required documentation.</p>
ISA 315 (Revised) (has update for the period)	<p>The tentative objectives of the projects at this stage are:</p> <p>A) to address the issues that have been identified by the ISA Implementation Monitoring project.</p>

Appendix A: IAASB Project and their latest status.

	<p>B) Possible changes that may be necessary to ISA 315 (Revised) to enhance the requirements and guidance for evolving environmental influences (such as changing internal control frameworks and more advanced technology systems being utilized by both management and auditors).</p> <p>C) In its June 2016 meeting, the IAASB directed the ISA 315 (Revised) Working Group to present a project proposal for the IAASB's consideration at its September 2016 meeting to commence standard-setting activities. The project proposal was presented and approved in the IAASB's September 2016 meeting.</p> <p>Since the December 2016 IAASB meeting, the task force has had one physical meeting and two teleconferences to develop the March meeting papers.</p> <p>In September 2017, the ISA 315 Task Force presented proposed changes to the requirements in ISA 315 (Revised) to address identified issues relating to understanding the entity and its environment, including the applicable financial reporting framework, and internal control, including obtaining an understanding of the five components of internal control. The Board broadly supported the proposals, but asked for consideration about some of the proposed changes to the definitions, as well as the perceived focus on controls in obtaining the necessary understanding of the components of internal control. With regard to proposed changes to the identification and assessment of inherent and control risk, the Board supported a separate assessment of inherent and control risk, but asked that the ISA 315 Task Force further consider how this works practically and highlighted that further clarification is needed relating to the assessment of control risk.</p> <p>Update for the period</p> <p>In December 2017, the Board discussed a first read of proposed changes to the requirements and application material of ISA 315 (Revised)². The Board broadly supported the proposals, but asked for further consideration by the Task Force on various matters, including aspects of the definitions of 'controls' and 'relevant assertions,' and regarding the introduction of the term 'business model' and its interactions with current requirements of the standard. The Board also questioned the use of 'sufficient and appropriate' as it relates to potential confusion with "sufficient appropriate audit evidence" and whether a change may have unintended consequences if this concept were to be introduced as proposed. The Board encouraged further consideration about how fraud can be included as a qualitative inherent risk factor, taking into account how this would link to the fraud risk factors in ISA 240.3 The Board continued to be supportive of the introduction of "spectrum of risk" but thought the spectrum of risk could be better emphasized and explained earlier in the standard.</p> <p>The Board recognized the need for further consideration about scalability, but agreed that scalability should be presented through the requirements and application material in context of the auditor's consideration of risk thereby eliminating the need for "considerations for smaller entities."</p> <p>The Task Force will continue to progress the proposed changes to the standard for a second read of an exposure draft in March 2018.</p>
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NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 26 January 2018

TO: Members of the New Zealand Auditing and Assurance Standards Board

FROM: Peyman Momenan

SUBJECT: Domestic Update

Introduction

1. This Update summarises the significant news from Financial Market Authority, New Zealand Institute of Chartered Accountants and other organisations **for the Board's** information, for the period November 2017 and January 2018.

Financial Markets Authority (FMA)

1. **The FMA's 2017 [Audit Quality Report](#)** was issued in November 2017. The report shows that since the FMA began these reviews in 2013, all audit firms now have systems and policies in place to deliver high-quality audits. However, inconsistencies remain in the quality of some individual audits.

For this year's report, the FMA reviewed 7 registered firms and 27 audit files. The review found firms had made improvements in areas highlighted for attention during previous reviews, showing initiatives implemented by firms are working. However, it is taking time to fully implement policies and to see this applied consistently across all audits. **The FMA reviews concluded there has been improvements in firms' assessment of independence** however the FMA continues to see non-compliance in this

The New Zealand Institute of Chartered Accountants

1. There have been no significant developments related to audit and assurance to report in the period.

CPA Australia

1. There have been no significant developments related to audit and assurance to report in the period.

The Institute of Directors (IoD)

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To: NZAuASB members
From: Rowena Sinclair
Date: 25th January 2018
Re: Academic update 2018-1

The key reason for starting these academic updates was the growing importance of standard setters, such as the NZAuASB, making evidence-based decisions. One way of doing this was to connect with relevant academic research. This was acknowledged by Hay (2017, p. 336) who stated “*Standard setters are becoming more aware of research and more likely to make evidence-based decisions about auditing standards*”.

This academic update firstly looks at some recent New Zealand research on the new auditor report, before research on audit committees is considered.

(1) NEW ZEALAND AUDITOR REPORTING

Recent New Zealand research conducted by Hong Li (2017), one of Professor David Hay’s¹ Honours students, analysed the impact of the new auditor’s report on audit quality and audit fees.

Audit quality was defined by “*a reduction in absolute abnormal accruals*” (Li, 2017, p. 30). Using a sample of 91 listed New Zealand companies the research found an improvement in audit quality upon the adoption of the new audit reporting standards.

In relation to audit fees the study used a sample of 121 listed New Zealand companies. The study found that audit fees increased by 9.3 percent after the new auditing standards came into force.

Li (2017, p. 31) considered that whilst the:

evidence suggests that the new audit requirements improve audit quality, it is uncertain whether this benefit is likely to outweigh the corresponding increase in audit fees, especially for smaller, non-listed entities.

It is hoped that this early New Zealand study on the impact of the new auditor’s report will be followed by other studies that consider the impact on audit quality on some of the individual changes to audit reporting such as: key audit matters (KAM); moving the audit opinion; and audit engagement partner signature. This will be particularly useful when KAM is extended from listed issuers to FMC reporting entity considered to have a higher level of public accountability in periods ending on or after 31 December 2018²

(2) AUDIT COMMITTEES

November 2017 saw the publication of the FMA’s Consultation Paper on the FMA Corporate Governance handbook. It is timely to look at research on: Principle 3 Board Committees, in relation to Audit Committees; and Principle 7 Auditors, particularly in relation to the appointment of auditors by audit committees.

Appointment of auditors by audit committees

Sulaiman’s (2017) UK study involved interviews with 11 audit committee members and 11 audit partners. Her study considered “*how is the AC involved in the auditor’s appointment and remuneration, auditor’s independence and monitoring of the audit process as set by the UK Code of Corporate Governance?*” (Sulaiman, 2017, page 352). The findings state “*the appointment and*

¹ Thank you to Hong Li and David Hay for permission to include the results of this research in this academic update.

² ISA (NZ) 701, paragraph NZ6.1 details the transitional provisions for KAM.

remuneration of the external auditor are the realm of the management, which shows that the current practices are not in accordance with the requirements of the UK Code of Corporate Governance” (Sulaiman, 2017, page 358).

The study has some interesting findings on the focus on cost rather than audit quality:

... evidence also suggests that cost considerations and the potential disagreement between the external auditor and the management related thereto (cost) rather than audit quality might be the reason for the selection and appointment of external auditor. As a result, the appointment of the external auditor is also driven by considerations, such as whether the management thinks they get value for money from the external auditor. This may suggest that the appointment of the external auditor is influenced by costs rather than the quality of work of the professional auditors. Yet, some ACs attempt to perform their monitoring role by ensuring that the level of the audit fees is not too low, as it may have an effect on the amount of work carried out by the external auditor, and, consequently, the audit quality (Sulaiman, 2017, page 358).

The need to evaluate audit committees

Martinov-Bennie, Soh & Tweedie’s (2015) Australian study interviewed six Audit Committee Chairs (ACC) and six Chief [Internal] Audit Executives (CAE) from seven organisations and investigated:

- (1) the current role of audit committees (ACs) in corporate governance;
- (2) the factors that make ACs effective; and
- (3) how the performance of ACs is being evaluated.

The study offers commentary on what policy needs to be developed for audit committees:

Given the international regulatory trend towards greater reliance on audit committees to improve governance, more policy attention is required on developing guidelines and assessment processes that evaluate whether audit committees are fulfilling their legislative mandate in practice (Martinov-Bennie, et. al, page 727).

Indicators of audit committee effectiveness

Contessotto & Moroney’s (2014) Australian study surveyed 67 Audit Partners and 62 Audit Managers and identified that when assessing audit committee effectiveness auditors use characteristics related to “the independence, resources and the diligence of audit committee members” (Contessotto, et. al, 2014, p. 413). Contessotto, et. al (2014, p. 413) considered that:

Of particular importance is the time audit committee members are prepared to devote to the role, the quality of the information they receive and their ability to remain sceptical, questioning and challenging of management.

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