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15 September 2010

Dear Merran

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**IAASB EXPOSURE DRAFT ISAE 3420 ASSURANCE REPORTS ON THE  
PROCESS TO COMPILE PRO FORMA FINANCIAL INFORMATION  
INCLUDED IN A PROSPECTUS**

Dear Merran

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Auditing and Assurance Standards Board with its comments on the International Accounting Standards Board's Exposure Draft – ISAE 3420, Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses, and this submission has benefited with some initial input from our clients, Grant Thornton International which is working on a global submission to the IAASB, and discussions with key constituents.

The views expressed here are preliminary in nature, and a more detailed Grant Thornton global submission will be finalised by the IAASB's due date of 30 September 2009.

Grant Thornton appreciates the Board asking for comments from its constituents on the IAASB's ED however we believe that the Board should be issuing this ED jointly as an AUASB ED so that Australian constituents can get the Board's initial views, given that a final standard when issued by the IAASB will need to be automatically issued as an Australian standard given that the Board is required to ensure that its auditing standards are consistent with IAASB standards, in the absence of exceptional circumstances. As the AUASB has not offered any comment on this IAASB ED which has been publicly available since April 2010, it is assumed that there are no exceptional circumstances, and hence this is the only real opportunity to provide comment to the AUASB and influence the IAASB's thinking. Grant Thornton again commends the Australian Accounting Standards Board's process in issuing automatically equivalent international EDs., and we

suggest that the other two IAASB EDs currently on issue: ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment; and ISA 610 (Revised), Using the Work of Internal Auditors which are due for IAASB comment by 15 November 2010, be also issued by the Board for Australian constituent comment.

We believe that the proposed standard will contribute to consistency in quality and practice globally. The EU Prospectus Directive gives rise to a need for common assurance standards throughout the European Economic Area (EEA), and in the wake of the financial crisis there is greater focus on harmonization of financial accounting around the world, and the reports provided by professional accountants in public practice.

Conversely, whilst sympathetic to the IAASB's decision to identify one jurisdiction and its prospectus regime as a starting point for an international standard, rather than aligning practices and reporting globally, we believe that it may result in greater differences in assurance on pro forma financial information ("PFI") around the world. In particular, we are aware that the US is unlikely to adopt or converge with ISAE 3420 for a number of issues. This is largely due to the focus of the ISAE on obtaining reasonable assurance about the process to compile whereas the US Standard<sup>1</sup> provides wider focus on providing assurance on management's assumptions applicable to the pro forma financial information, and reporting on the PFI itself.

However, that said, whilst we have concerns regarding the IAASB's decisions, we support the aim to get consistency in practice across the EEA.

### General comments

#### Process to compile

The phraseology used throughout the standard "the process to compile" is adding unnecessary complexity and confusion to the standard. The objective of the practitioner is to obtain reasonable assurance about whether *the process to compile* the pro forma financial information has been applied by the responsible party in accordance with the criteria and then report thereon. 'Process' in general terms encompasses procedures carried out (by the responsible party) to meet a particular aim. However, the requirements and guidance in the standard go beyond examining the process alone. For example, requirements regarding the professional accountant's considerations on how the pro forma financial information is presented ('the stand back') and requirements to read other information included in the prospectus.

We recognize that the IAASB have used this phraseology to avoid potential confusion among users who are familiar with 'compile' in the context of a compilation engagement under ISRS 4410, but we do not share this view. Compilation of financial information is simply gathering, classifying and summarizing in accordance with certain criteria, regardless of the type of financial information being compiled. Proper explanation in the introduction of the standard of what compilation means in the context of an

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<sup>1</sup> AT Section 401 Reporting on Pro Forma Financial Information

engagement under ISAE 3420 would address such concerns. We suggest that the IAASB remove references to “the process” and use compilation. We have offered editorial comments in this regard in the appendix to this letter.

#### Opinion

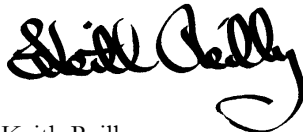
As the IAASB have used the EU prospectus regime in developing the requirements and guidance in this standard, we are surprised to find that the opinion paragraph is not aligned with the requirement in the prospectus directive. We believe that cautionary language currently included in practitioners responsibilities is sufficient to address the IAASB’s concerns that the positive wording on the pro forma financial information may be interpreted as an opinion on the PFI. We therefore suggest that the IAASB adopt the opinion in the EU prospectus as follows:

- The pro forma financial information has been properly compiled on the basis states;  
and
- Such basis is consistent with the accounting policies of XYZ Group.

Our responses to the specific questions are included in the Appendix I, along with comments on specific paragraphs in Appendix 2

If you require any further information or comment, please contact me.

Yours sincerely  
GRANT THORNTON AUSTRALIA LIMITED

A handwritten signature in black ink, appearing to read "Keith Reilly". The signature is stylized with a large, sweeping flourish at the end.

Keith Reilly  
National Head of Professional Standards

- 1 In relation to respondents' roles and responsibilities, would respondents adopt or apply the proposed ISAE, or request an engagement in accordance therewith, if it became effective? If not, please explain why (in this regard, respondents are asked to also consider question 4 below).**

Grant Thornton International is organized as independently owned and managed accounting and consultancy firms across 95 countries. We provide resources that assist member firms in delivering high quality services which are ordinarily benchmarked against IAASB pronouncements. However, application and adoption of the standard will depend on the relevant prospectus regime in those different countries (and jurisdictions).

- 2 Do respondents believe that the work effort set out in the proposed ISAE is sufficient and appropriate to enable the practitioner to express an opinion as to whether the process to compile the PFI has, in all material respects, been applied in accordance with the applicable criteria?**

Subject to general comments, the work effort in the exposure draft is sufficient to express an opinion on the proper compilation in accordance with the criteria.

- 3 Do respondents believe that it is clear from the illustrative practitioner's report in the Appendix to the proposed ISAE that the practitioner is reporting on the process to compile the PFI and not on the PFI itself? Paragraph A52 of the proposed ISAE, in particular, provides two alternatives for the opinion in relation to the process, i.e.**

- **Whether the process to compile the PFI has, in all material respects, been applied in accordance with the applicable criteria; or**
- **Whether the PFI has been properly compiled on the basis stated.**

Subject to the comments above, the report does indicate that the opinion is on the process.

- 4 As the proposed ISAE is designed to convey assurance on the process to compile the PFI, do respondents believe that it would be desirable for the IAASB to also develop a separate standard on reporting on the PFI itself? If yes:**
- a What do respondents believe would be the work effort implications in undertaking engagements to report on the PFI itself? In particular, how would such work effort differ from that specified in the proposed ISAE?**

We support the IAASB considering a further standard with the objective to give assurance on the PFI. This, however, should be considered in light of the needs of countries that do not have standards which address pro forma, where giving reasonable assurance may be a level too high. As some adjustments in pro forma are management's best estimate assumptions, or possible hypothetical assumptions, and given the subjective and speculative nature of such assumptions, it would not be possible to give an opinion on the PFI itself, so only negative assurance could be given.

- b **Should both reasonable assurance and limited assurance on the PFI be addressed? If so, how should the nature and extent of the practitioner’s work effort be differentiated between a reasonable assurance engagement and a limited assurance engagement to report on the PFI?**

Whilst the level of work effort is appropriate to support reasonable assurance on the compilation, we would support limited assurance on the PFI as opposed to reasonable assurance, due to comments on assumptions and estimates above.

The IAASB is also interested in comments on matters set out below.

- a ***Issuers, Investors and Regulators***—Recognizing that PFI included in a prospectus is of particular interest and relevance to issuers, investors (including sponsoring banks, lead managers, underwriters, analysts, and institutional and retail investors), and regulators (including securities exchanges), the IAASB invites respondents from these constituencies to comment on the proposed ISAE and, in particular:
  - i The content of the illustrative practitioner’s report; and
  - ii Whether the proposed ISAE will contribute to enhancing user confidence in how the PFI is produced.

N/A

- b ***Developing Nations***—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed ISAE in a developing nation environment.

N/A

- c ***Translations***—Recognizing that many respondents may intend to translate the final ISAE for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISAE.

N/A

- d ***Effective Date***—Recognizing that the proposals in the proposed ISAE do not establish fundamentally new assurance principles and that the subject matter of the proposed ISAE does not represent a fundamentally new area of practice for the profession, and given the public interest need to harmonize inconsistent practice internationally as soon as practicable, the IAASB believes that an appropriate effective date for the standard would be 18 months after the date of final approval of the standard. The IAASB welcomes comment on whether this lead time relative to the effective date would provide a sufficient period to support effective implementation of the standard.

This lead time appears sufficient.

Paragraph	Comment
12	Before agreeing to accept an engagement to report on the <del>process to proper compilation of</del> <u>compile</u> pro forma financial information ...
12 (e) (ii)	<del>Applying the process to compile the</del> <u>Compiling the</u> pro forma financial information in accordance with the applicable criteria
12 (e) (iii) a.	Access to all information (including, where possible, information of acquirees in a business combination), such as records, documentation and other material, relevant to the <del>process to compile</del> <u>compilation of</u> the pro forma financial information
12 (e) (iii) c.	Access to those within the entity and the entity’s advisors from whom the practitioner determines it necessary to obtain evidence relating to the <del>process to compile</del> <u>compilation of</u> the pro forma financial information
15	When planning and performing the engagement, the practitioner shall consider materiality <u>in the context of the compilation of</u> <del>with respect to the process to compile the</del> pro-forma financial information
16 (b)	<del>The process applied by the</del> <u>procedures adopted, or planned to be adopted, by the</u> responsible party <del>to compile the</del> <u>for the</u> preparation of the pro forma financial information.
24	24(a) <del>The process to compile the pro forma financial information</del> <u>responsible party</u> has identified all appropriate pro forma adjustments necessary to illustrate...  24(b) The omission of any pro forma adjustments, <del>from the process to compile the pro forma financial information</del> because they do not meet the applicable criteria, does not render...  24(c) <del>The process to compile the pro forma financial information has been appropriately applied to</del> <u>reflects</u> all the significant effects of the event or transaction, and in a way that does not result in the pro forma financial information being misleading.
25	Forming the Opinion  We are of the view that paragraph 25 is unnecessarily repetitive of the objective and the requirement in paragraph 27. In addition, the section is “forming an opinion”, so the focus is on coming to conclusions [need to rewrite this explanation]  <del>25. The practitioner shall form an opinion on whether the process to compile the pro forma financial information has, in all material respects, been applied by the responsible party in accordance with the applicable criteria...</del>  26. <del>In order to form that opinion, the</del> <u>The</u> practitioner shall

	<p>conclude as to whether the practitioner has obtained sufficient appropriate evidence <u>to form an opinion on the proper compilation of the pro forma financial information</u>. In making that evaluation, the practitioner shall also consider:</p> <ul style="list-style-type: none"> <li>• <del>about whether the <u>compilation process applied by the responsible party</u> is free from material omissions or inappropriate application of any element thereof ; and</del></li> </ul> <p><del>That conclusion shall include an evaluation of whether the responsible party has adequately disclosed and described the applicable criteria if these are not publicly available. (Ref: Para. A47–A48)</del></p>
27	The practitioner shall express an unmodified opinion when the practitioner concludes that the <u>compilation process to compile of</u> the pro forma financial information has, in all material respects, been applied by the responsible party in accordance with the applicable criteria
28	In many jurisdictions, the relevant law or regulation will not permit publication of a prospectus that contains a modified opinion with regard to the <del>process to compile</del> <u>compilation of</u> the pro forma financial information.....
29	In the rare circumstances where the relevant law or regulation permits publication of a prospectus that contains a modified opinion with regard to the <del>process to compile</del> <u>compilation of</u> the pro forma financial information....
31 (c) (iv)	A reference to the applicable criteria in accordance with which the <del>process to compile</del> <u>compilation of</u> the pro forma financial information has been applied....
31 (d)	A description of the responsible party’s responsibilities, including a statement that the responsible party is responsible for <del>applying the process to compile</del> <u>compiling</u> the pro forma financial information....
31 (e) (i)	The practitioner’s responsibility is to express an opinion about whether the responsible party’s <del>process to compile</del> <u>compilation of</u> the pro forma financial information.....
31 (e) (ii)	The practitioner is not responsible for updating or reissuing any reports or opinions on any financial information used in the <del>process to compile</del> <u>compilation of</u> the pro forma financial information
31 (f)	A statement that the engagement was performed in accordance with ISAE 3420, <i>Assurance Reports on the <u>Process to Compile Compilation of Pro Forma Financial Information Included in a Prospectus</u></i> .....has applied the <del>process to compile</del> <u>compilation of</u> the pro forma financial information....
(h)	The practitioner’s opinion on the proper application of the <del>process to compile</del> <u>compilation of</u> the pro forma financial information
A8	Unadjusted financial information used in the <del>process to compile</del> <u>compilation of</u> pro forma financial information will, in most cases, be historical in nature
A10	An assurance engagement to report on the <del>process to compile</del> <u>pro</u>

	forma financial information is based on the assumption that: (a) The practitioner's role does not involve taking responsibility for the <del>process to compile</del> <u>compilation of</u> such information; and
A15	In the context of a business combination, for example, the <del>process to compile</del> <u>compilation of</u> the pro forma financial information involves consideration of such matters as.....
A16	....and whether it has appropriately applied such policies in the <del>process to compile</del> <u>compilation of</u> the pro forma financial information
A17	In an engagement to report on the <del>whether the process to compile</del> pro forma financial information <del>has been properly applied</del> , an omission or the inappropriate application of an element of the process is material if it results in pro forma financial information that is misleading to the intended users of the information.
A18	Examples of matters that may cause the <del>process to compile</del> the pro forma financial information not to be properly applied include....
A21	Matters on which the practitioner may obtain an understanding with regard to the <del>process</del> <u>procedures adopted</u> to compile the pro forma financial information include, for example... <ul style="list-style-type: none"> <li>• The responsible party's competence in <del>applying the process to compile</del> <u>compiling the</u> pro forma financial information.</li> </ul>
A22	In a business combination or divestment, areas that may give rise to complexity in the <del>process to compile</del> the pro forma financial information....
A23	In contrast to financial statements prepared periodically by the responsible party, the <del>process to compile</del> <u>compilation of</u> the pro forma financial information is undertaken solely for purposes of the prospectus...
A29	As paragraph 13 indicates, a necessary criterion for <del>applying the process to compile</del> <u>preparing the</u> pro forma financial information is that an appropriate source be used for the unadjusted financial information....the practitioner is obtaining evidence to determine whether this criterion has been satisfied by the responsible party in <del>applying the process</del> <u>the preparation of...</u>
A32	Inquiring of the responsible party about: <ul style="list-style-type: none"> <li>o <del>The process by which the source has been prepared and</del> the reliability of the underlying accounting records to which the source is agreed or reconciled.</li> </ul>
A34	Informed by the practitioner's understanding of the <del>process to compile</del> <u>compilation of</u> the pro forma financial information... <ul style="list-style-type: none"> <li>• Evaluating relevant analyses and worksheets prepared by the responsible party and other entity personnel involved in the <del>process to compile</del> <u>compilation of</u> the pro forma financial information.</li> <li>• Obtaining evidence of the responsible party's oversight of</li> </ul>



	other entity personnel involved in the <del>process to compile</del> <u>compilation of</u> the pro forma financial information.
A37	..the acquiree or divestee financial information may necessarily have a consequence on the <del>process to compile the</del> pro forma financial information...this may have no consequence on the <del>process to compile</del> pro forma net asset and income statements
A44	Relevant law or regulation may require the practitioner to express an opinion on matters other than whether <del>the process to compile</del> the pro forma financial information has, in all material respects, been <del>applied</del> <u>prepared</u> by the responsible party in accordance with the applicable criteria.
A45	Where the relevant law or regulation requires the practitioner to express an opinion on other matters related to the <del>process to compile the</del> pro forma financial information