

# IAASB CAG PAPER



International Federation of Accountants

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## Agenda Item

# B.1

**Committee:** IAASB Consultative Advisory Group

**Meeting Location:** Prague

**Meeting Date:** September 12–13, 2011

### **Assurance Engagements to Report on Pro Forma Financial Information Included in a Prospectus—ISAE 3420—Report Back**

1. The objective of this Agenda Item is to provide a report back on proposals of the Representatives on this project as discussed at the March 2011 CAG Meeting.
2. The discussion on this topic will follow the structure of this CAG Paper.

#### **Project Status and Timeline**

3. The IAASB will be asked to approve proposed ISAE 3420 as a final pronouncement at its September 2011 meeting. For reference only, the relevant meeting papers for the September 2011 IAASB meeting are included as CAG Reference Papers.

#### **March 8-9, 2011 CAG Discussion**

4. Below are extracts from the draft minutes of the March 2011 CAG meeting,<sup>1</sup> and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
Ms. Blomme supported the change in title and presentation of the work effort, noting that it was clear that the compilation is performed by the responsible party which justified the move away from the focus on the process.	Point noted.
Ms. Blomme, as the Rapporteur for the CAG WG, noted that the WG agrees with the task force's proposal to have a single opinion, as this will be useful in Europe. She also noted that the WG supports the task force's proposal in respect of the use of unaudited or unreviewed source information, as well as the task force's proposal to not	Points taken into account. Pursuant to Board deliberations at the March 2011 IAASB meeting, the revised draft now adopts a duality approach to the opinion to provide an alternative wording that is consistent with ISAE 3000 <sup>2</sup> and the Assurance

<sup>1</sup> The minutes will be approved at the September 2011 IAASB CAG meeting.

<sup>2</sup> ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

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Representatives' Comments	Task Force/IAASB Response
<p>recommend a project to develop a standard on reporting on PFI.</p>	<p>Framework.<sup>3</sup> This approach establishes equivalency between the following two wordings:</p> <ul style="list-style-type: none"> <li>• “the pro forma financial information has, in all material respects, been properly compiled on the basis of the applicable criteria”</li> <li>• “the pro forma financial information has been properly compiled on the basis stated”</li> </ul> <p>The latter wording will accommodate engagements in jurisdictions that mandate that the opinion be expressed in such terms.</p> <p>This mirrors the approach established in ISA 700<sup>4</sup> (i.e., the equivalency between “true and fair view” and “fairly presents, in all material respects”).</p>
<p>Mr. James noted that IOSCO has not reviewed the task force proposals yet, and so have no specific comments to offer at this stage.</p>	<p>Point noted.</p>
<p>Mr. Krantz noted that pro forma statements are important for capital markets, and that it may be difficult for the auditing profession to provide reasonable assurance on PFI without a standard.</p>	<p>Mr. Swanney responded by noting that any such standard was unlikely to reach a different conclusion from that in paragraph 16(c) that is, the proposed work effort in relation to the proper compilation of PFI.</p>
<p>Mr. White noted that PFI is not factual, and that a report on the PFI itself may be misread.</p>	<p>The Task Force agrees. For this reason, the draft ISAE requires the practitioner to include language in the report making clear that the PFI does not represent an entity’s actual financial position, financial performance, or cash flows; consequently, it is not possible to express an</p>

<sup>3</sup> *International Framework for Assurance Engagements*

<sup>4</sup> *ISA 700, Forming an Opinion and Reporting on Financial Statements*

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Representatives' Comments	Task Force/IAASB Response
	audit opinion or review conclusion on the PFI.
Mr. Kocktvedgaard noted that illustrative report should state that a “practitioner cannot knowingly be associated with misleading information” as opposed to including a reference to ethical requirements, which will be less easily understood.	Mr. Swanney noted that practitioners have an ethical responsibility to not be associated with misleading statements.
Mr. James noted that some IOSCO members are of the view that there should be a standard on the review or audit of PFI.	Mr. Swanney commented that, as Mr. White has noted, the numbers in column 3 have no basis other than arithmetic based on assumptions and that an opinion on the numbers cannot be any more meaningful than the proper compilation proposed.
Mr. Krantz noted that there could be an assurance standard about the process of compiling the PFI which could describe the process as a way of providing some support for the numbers.	While this suggestion could be explored in the future, it is beyond the scope of this present project.

#### IAASB Interaction with the IAASB CAG

5. There are no substantive new issues being raised on the project for the purposes of the September 2011 IAASB meeting. Accordingly, this report back serves as the final discussion of the project prior to its anticipated approval by the IAASB. CAG Representatives may wish to take this opportunity to comment on the IAASB’s interaction with the CAG during the development and finalization of proposed ISAE 3420. The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

#### Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 4-A of the September 2011  
IAASB Meeting – Proposed ISAE 3420—  
Issues and IAASB Task Force  
Recommendations

[www.ifac.org/IAASB/Meeting-FileDL.php?FID=6326](http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6326)

Agenda Item 4-C of the September 2011  
IAASB Meeting – Draft of Proposed  
Revised ISAE 3420 (Clean)

[www.ifac.org/IAASB/Meeting-FileDL.php?FID=6328](http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6328)

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Agenda Item 4-D of the September 2011  
IAASB Meeting – Draft of Proposed  
Revised ISAE 3420 Dated September 2011  
Showing Changes from Exposure Draft  
Dated April 2010

[www.ifac.org/IAASB/Meeting-FileDL.php?FID=6329](http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6329)

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### Appendix

#### Project History

**Project: Proposed ISAE 3420, Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus**

##### Summary

	CAG Meeting	IAASB Meeting
Project commencement	March 2008	March 2008
Development of proposed international pronouncement (up to exposure)	March 2009 September 2009	March 2009 September 2009 December 2009
Exposure	March 2010	March 2010
Consideration of respondents' comments on exposure	March 2011	March 2011
Final approval of proposed pronouncement	September 2011	Planned for September 2011

##### CAG Discussions: Detailed References

<b>Project Commencement</b>	<p><u>March 2008</u></p> <p>See IAASB CAG meeting material: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3740">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3740</a></p> <p>See CAG meeting minutes (in Agenda Item E of the following material): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4274">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4274</a></p> <p>See report back at the September 2008 CAG meeting (Agenda Item C.4): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4099">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4099</a></p>
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<b>Development of Proposed International Pronouncement (Up to Exposure)</b>	<p><u>March 2009</u></p> <p>See IAASB CAG meeting material: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5596">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5596</a></p> <p>See CAG meeting minutes (in Agenda Item P of the following material): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589</a></p> <p>See report back on March 2009 CAG meeting: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4966">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4966</a></p> <p><u>September 2009</u></p> <p>See IAASB CAG meeting material: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4965">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4965</a></p> <p>See CAG meeting minutes (in Agenda Item L of the following): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5305">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5305</a></p> <p>See report back on September 2009 CAG meeting (see paragraph 32 of the following meeting material): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5288">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5288</a></p> <p><u>March 2010</u></p> <p>See IAASB CAG meeting material: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5288">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5288</a></p> <p>See CAG meeting minutes (in Agenda Item K of the following): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5882">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5882</a></p> <p>See report back on March 2010 CAG meeting: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5605">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5605</a></p>
<b>Consideration of Respondents' Comments on Exposure</b>	<p><u>March 2011</u></p> <p>See IAASB CAG meeting material: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6028">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6028</a></p> <p>See CAG meeting minutes (in Agenda Item I of the following):</p> <p>See draft March 2011 CAG meeting minutes at Agenda Item A.</p> <p>See report back on March 2011 CAG meeting in paragraph 4 of this CAG paper.</p>

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**Assurance Engagements to Report on Pro Forma Financial Information Included in a Prospectus—ISAE 3420—Report Back**

<b>Final Approval of Proposed Pronouncement</b>	This report back serves as the final discussion of the project prior to its anticipated approval by the IAASB.
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