

**Proposed ISAE 3420—
Summary of Significant Comments on Exposure
and IAASB Task Force Recommendations**

I. Introduction

1. The comment period for the exposure draft (ED) of proposed ISAE 3420¹ closed on September 30, 2010. Comment letters were received from 36 respondents. A listing of those respondents is included in the Appendix.
2. Overall, respondents from a wide range of stakeholder groups including regulators, IFAC Member Bodies, and firms were generally strongly supportive of the direction and proposals in the ED. As expected, however, a number of respondents voiced concern, noting in particular the potential for confusion regarding the two proposed alternative wordings for the opinion in the ED. Echoing the IAASB's prior debates, these respondents' comments focused mainly on whether there was a sufficiently clear distinction between reporting on the process to compile the pro forma financial information (PFI) and reporting on the PFI itself.
3. Most of the respondents addressed the four main questions that were posed in the explanatory memorandum to the ED. Responses to these questions are summarized below as part of the following significant issues:
 - A. Objective of the proposed standard
 - (i) Focus of the practitioner's work
 - (ii) Risk of user confusion on proposed alternative opinion wordings
 - B. Extent of work effort on unaudited or unreviewed unadjusted financial information ("column 1") or acquiree or divestee financial information
 - C. "Published" vs. audited source of column 1
 - D. Distinction between applicable criteria and basis stated
 - E. Use of profit forecasts as the basis for column 1
 - F. Terminology
 - (i) Use of the terms "compile" and "compilation"
 - (ii) Use of the term "credible"
 - G. Level of description of work effort in the illustrative report
 - H. Other matters
 - (i) Restriction on Distribution or Use of the Report
 - (ii) Linkage with ISAE 3000²

¹ Proposed ISAE 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*

I. Consideration of whether to develop a standard on reporting on PFI

II. Significant Issues

A. OBJECTIVE OF THE PROPOSED STANDARD

4. Two of the main questions in the explanatory memorandum to the ED sought stakeholder views on the proposed focus of the ISAE to report on the process to compile the PFI:

Q1. 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.

Q3. 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.

5. A majority of those who responded to Q1³ indicated strong support for the ISAE, subject to appropriate clarifications in the proposed standard. Four other respondents⁴ were also supportive of adoption where consistent with national regulatory requirements.

6. As expected, a number of other respondents⁵ noted that they would not adopt or apply the proposed ISAE, either because it would conflict with local regulation or existing standards, or because it would be incompatible with prevailing market practice.

7. The significant issues raised by respondents in their responses to Q1 and Q3 are discussed below.

(i) *Focus of the Practitioner's Work*

8. Several respondents⁶ highlighted that the work effort described in the ED in fact goes beyond a pure "process" focus. All but one of those respondents were supportive of this direction (indeed, some highlighted the public interest benefit of going down that path). However, given that the work effort actually extends beyond the process, they questioned whether it was appropriate to characterize the title of the ISAE and the report in terms of assurance on the "process" to compile PFI. They noted that, in some instances, the work effort set out in the ED involves considerations relating to sources and qualities of financial information that would not be expected in a mere assessment of the process. In addition,

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

³ APB, CESR, CNCC, EY, FACPCE, FEE, ICAEW, ICAIre, ICJCE, ICAP, IDW, KPMG, MIA/MICPA, NIVRA, PwC, RAJNISH

⁴ DTT, GT, IOSCO, JICPA

⁵ AASC, AICPA, AUASB, Baker Tilly Russia, CICA, FSR, HKICPA, Hunter College, ICPAS, IRBA, NZICA, SAICA, SECNZ

⁶ APB, CESR, CICA, ICAEW, IOSCO, KPMG, PwC

they observed that some aspects of the ED, such as the benchmark applicable criteria, seemed more relevant to the PFI than to the process itself.

9. Some of the respondents took the view that the ED went too far in excessively emphasizing the process, resulting in a misalignment between the work proposed and the opinion required. In particular, it was noted that the over-emphasis on the process may result in users underestimating the applicability and usefulness of the standard, and the level of assurance that the work effort actually supports. These respondents noted that the work effort proposed would be more appropriate in the context of an engagement to report on the proper compilation of the PFI as a whole.
10. The respondents therefore suggested that the title of, and proposals in, the ISAE be re-characterized in terms of assurance on the proper compilation of the PFI, without changing the intended scope of the standard. Two of the regulators (CESR and IOSCO) in particular noted their strong support for such a re-characterization.
11. The Task Force accepted these comments. The Task Force acknowledges that, in trying to emphasize that the purpose of the engagement is not to provide assurance on the PFI, the ED may have gone too far in focusing exclusively on the process. The Task Force agrees with the respondents that, in substance, the work effort set out in the ED extends beyond a pure process focus, but does not purport to be an audit of the PFI. Accordingly, the Task Force agrees that the term “proper compilation” would better reflect the nature of that work effort. The Task Force shares the view expressed by some of the respondents that the work effort set out in the ED, which extends beyond the process but not to the PFI itself, is the outcome that is in the public interest.
12. Accordingly, the Task Force proposes the following amendments to the ED to re-characterize the proposed standard as addressing reasonable assurance engagements on the proper compilation of PFI as opposed to merely the process to compile PFI:
 - (a) Changing the title of the standard from:

Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus

to:

Assurance Reports on the Proper Compilation of Pro Forma Financial Information Included in a Prospectus;
 - (b) Changing references to “process to compile” to “proper compilation” as appropriate throughout the proposed standard, including in the illustrative report; and
 - (c) Explaining how the work effort in the proposed ISAE goes beyond pure process, leveraging guidance in the AICPA’s Auditing Standards Board’s Attestation Standard (AT) 401,⁷ i.e., that the engagement involves:
 - Performing procedures to obtain evidence about whether:

⁷ AT 401, *Reporting on Pro Forma Financial Information*

- The responsible party has an appropriate basis for presenting the significant effects directly attributable to the event or transaction;
- The related pro forma adjustments give appropriate effect to that identified basis; and
- The pro forma column reflects the proper application of those adjustments to the unadjusted financial information; and
- Evaluating the overall presentation of the PFI.

To demonstrate how this description of the work effort maps to the performance requirements in the proposed standard, references to the relevant requirements have been attached to each of these elements—see paragraph 6.⁸

13. The Task Force believes that these proposed changes better reflect the essence of the proposed standard without changing its scope.

Matter for IAASB Consideration

Q1. Does the IAASB agree with the proposed changes to re-characterize the proposed ISAE in terms of engagements to provide reasonable assurance on the proper compilation of PFI?

(ii) *Risk of User Confusion on Proposed Alternative Opinion Wordings*

14. A number of respondents⁹ noted the potential for user confusion to arise from the provision of two alternative wordings for the opinion, notwithstanding the requirement for the practitioner to include disclaimer language in the report regarding the fact that the practitioner is not providing any assurance on the PFI. Most of these respondents highlighted the risk that users would read or interpret the second wording (i.e., whether the PFI has been properly compiled on the basis stated) as providing assurance on the PFI itself, especially in jurisdictions that do not have a regulatory requirement for assurance to be provided on the proper compilation of PFI. A few of the respondents noted that this wording does not include the word “process” even though the ED focuses on the process of compilation.
15. One respondent (AICPA) also suggested the possibility that users might misunderstand the two alternatives as implying that the practitioner is reporting on *both* the process and the PFI, notwithstanding the disclaimer in the report. Another respondent (IOSCO) highlighted the challenge of clearly distinguishing the two forms of reporting given overlap in areas that deal with consideration of the appropriate selection of source data, and factual support for the pro forma adjustments.
16. A few other respondents¹⁰ objected to the ED providing two alternative wordings for the opinion, believing that they were not equivalent. In particular, they felt that a “properly

⁸ Paragraph numbers refer to the revised draft of the proposed ISAE unless noted otherwise.

⁹ AICPA, AUASB, CICA, DTT, HKICPA, ICAIre, IRBA, IOSCO, KPMG, NZICA, SECNZ

¹⁰ APB, CNCC, CESR, CICA

compiled” opinion could be understood as being purely on the process, which they thought would be misleading in their jurisdictions. Some also were of the view that the first wording does not appropriately reflect the work effort set out in the ED.

17. Two of the respondents (AICPA, DTT) suggested that if the second wording were to be retained, it should be restricted to only those jurisdictions where such wording is mandated by law or regulation. One respondent (AUASB) suggested only the first wording should be retained, as the other wording does not reflect the focus of the ED on the process.
18. Several respondents¹¹ expressed support for the opinion actually specified in the European Union (EU) Prospectus Directive¹² to be used, some in favor of it being the sole option and others as a third option.
19. The Task Force notes that the first alternative wording of the opinion was provided in the ED because of the ED’s focus on reporting on the process. Given that the work effort set out in the ED extends beyond the process and goes to the proper compilation of the PFI, the Task Force proposes that only the second wording be retained. The Task Force notes that paragraph 1 of the ED restricts the scope of the proposed ISAE and therefore its applicability to circumstances where:
 - Such reporting is required by securities law or the regulation of the securities exchange in the jurisdiction in which the prospectus is to be issued; or
 - This reporting is generally accepted practice in such jurisdiction.
20. As such, the Task Force does not believe that an opinion expressed in terms of proper compilation would be misunderstood in these circumstances.
21. The Task Force accepts that the proposed standard might not necessarily be the right one for those jurisdictions that do not have a legal or regulatory requirement (or where there is no established market practice) for reporting on proper compilation, and that a different approach might be contemplated. This matter is considered further under Issue I below.
22. The Task Force recognizes that the second wording of the opinion does not signal that the practitioner’s work has involved consideration of materiality, consistent with the requirements of the Assurance Framework.¹³ Equally, the Task Force recognizes the practical imperative of ensuring maximum compatibility of the standard with existing law or regulation in jurisdictions where the standard would likely be applied, which require that the opinion be expressed in terms of proper compilation without a reference to materiality. To address this dilemma, the Task Force proposes that the report include the ISAE’s definition of the term “properly compiled” in the section describing the practitioner’s responsibilities (see paragraphs 11(f) and 35(g) and the illustrative report). This definition then makes clear that consideration of materiality is integral to reporting on proper compilation.

¹¹ Australian Accounting Institutes, CESR, CNCC, FEE, GT, ICAIre, ICJCE

¹² That is, that “the pro forma financial information is properly compiled on the basis stated, and that basis is consistent with the accounting policies of the issuer.”

¹³ The IAASB’s *International Framework for Assurance Engagements*

Matter for IAASB Consideration

Q2. Does the IAASB agree that:

- (a) Only the second wording should be retained for the opinion?
- (b) It would be appropriate to include the definition of the term “properly compiled” in the report to make clear that the practitioner’s work has involved consideration of materiality?

B. EXTENT OF WORK EFFORT ON UNAUDITED OR UNREVIEWED COLUMN 1 OR ACQUIREE OR DIVESTEE FINANCIAL INFORMATION

23. A few respondents¹⁴ expressed concern about the absence of any requirement for specific procedures to be performed regarding the appropriateness and fitness for purpose of the source of column 1 or of the acquiree or divestee financial information when that source has not been audited or reviewed. They questioned the sufficiency of the work effort suggested in the application material (paragraphs A29–A33 of the ED), noting that the practitioner could decide not to perform any of the listed procedures.
24. The respondents were of the view that the practitioner should be required to perform additional procedures in all circumstances when the source has not been audited or reviewed. Specific suggestions they provided included requirements for:
- The practitioner to have regard to the findings of the immediately preceding audited annual or reviewed interim financial information, and whether these might indicate any issues with the process that the responsible party has applied in compiling the financial information (e.g., if the practitioner had identified deficiencies in internal control during the previous audit engagement, the practitioner would need to consider whether these would affect the reliability and credibility of the source of the unadjusted financial information).
 - Performance of procedures in appropriate circumstances to corroborate some or all of the information provided by the responsible party in response to the practitioner’s inquiries (e.g., if the responses are inconsistent with the practitioner’s understanding of the entity or the external factors that influence the markets in which the entity operates).

The respondents also suggested that it would be helpful to clarify the minimum extent of inquiries and analytical (or other) procedures expected.

25. A few other respondents¹⁵ commented on the lack of clarity regarding the proposed guidance on the work effort when the source of column 1 or that of the acquiree or divestee information has not been audited or reviewed. Specifically, one of them (KPMG) felt a lack of clarity in the approach to describing the practitioner’s responsibilities with respect to the credibility of the acquiree or divestee financial information relative to the work effort with respect to the source of column 1 in the same circumstances. Another respondent (NZICA) was of the view that the

¹⁴ DTT, EY, FEE, KPMG

¹⁵ KPMG, NIVRA, NZICA

procedures suggested in the application material appear close to a review of the source of column 1, and therefore appear to go beyond an engagement to report on process.

26. One respondent (PwC) was of the view that whether column 1 should be audited or reviewed should be a decision for regulators to make, rather than the IAASB. Nevertheless, given the differences in regulatory requirements around the world, the respondent expressed strong support for the proposed requirements and guidance regarding the source of column 1.
27. The Task Force acknowledged the concerns raised regarding the perceived lack of clarity in the guidance in those circumstances where the source of column 1 or the source of the acquiree or divestee financial information has not been audited or reviewed. Two separate considerations are necessary.
 - (a) *Historical Financial Information of the Entity and of Any Acquiree Never Audited or Reviewed*
28. The Task Force believes that it will be extremely rare for a securities regulator to permit a prospectus to be issued where the prior historical financial information of the entity¹⁶ and, if applicable, that of an acquiree has never been audited or reviewed.
29. Theoretically, it is possible for PFI to be compiled for an entity that has never been audited or reviewed, or to incorporate financial information of an acquiree that has never been audited or reviewed. However, it is unlikely that the publication of a prospectus incorporating such PFI would be viewed by securities regulators as being in the public interest, and therefore being permissible. The reality is that law or regulation in most jurisdictions will require some history of audit or review (whether for one or more periods) for the entity and, if applicable, the acquiree, even if the financial information used to compile the PFI itself is not audited or reviewed. In addition, from a practical standpoint, there is unlikely to be a requirement for entities to compile PFI for transactions involving small acquisitions, which is perhaps where it is more likely that acquirees will not have a prior history of audit or review.
30. In the rare circumstances where there is no prior history of audit or review for the entity and any acquiree, the Task Force believes that there would be no reasonable basis for the practitioner to undertake the engagement. Therefore, it would not be in the public interest to allow the practitioner to do so under the standard. Accordingly, the Task Force proposes that a precondition to engagement acceptance be added to the proposed standard. Under this precondition, the practitioner determines that the relevant law or regulation requires prior historical financial information of the entity and, if the event or transaction involves an acquisition, that of the acquiree to have been published in accordance with such law or regulation or to be included in the prospectus, and that such financial information be audited or reviewed (see paragraph 13(d) and related guidance in paragraph A9).
31. Given the addition of this precondition, paragraph A33 of the ED addressing circumstances where the entity's financial information has never been audited or reviewed no longer is necessary. Accordingly, the Task Force proposes that this guidance be deleted.

¹⁶ Financial information of the entity includes financial information of any divestee.

32. The Task Force notes that, where the compilation of PFI does involve an entity or acquiree that has never been audited or reviewed, there is nothing in the proposed standard that would prevent management from discussing the matter with the securities regulator or legal counsel, and seeking appropriate consent or waiver from the regulator. The Task Force, however, does not believe that this is a practice that the standard should be encouraging. Accordingly, there is no further discussion of the matter in the proposed standard.
- (b) *Source of Column 1 or of Acquiree Financial Information Not Audited or Reviewed*
33. The Task Force accepted the concerns raised regarding the lack of any required work effort in those circumstances where the source of column 1 or the source of the acquiree or divestee financial information is not audited or reviewed.
34. To ensure sufficient rigor in the work effort in such circumstances, the Task Force agreed that the practitioner should be required to perform procedures to be satisfied that the source of column 1 is appropriate or that the financial information of any acquiree or divestee is factually supportable. Accordingly, paragraphs 19 and 22(b) have been added.
35. With respect to the source of column 1 if it is not audited or reviewed, the nature and extent of the procedures will depend on a number of factors such as those as set out in paragraph A29. Paragraph A30 provides guidance on the procedures that the practitioner may perform in these circumstances.
36. In relation to a divestee’s unaudited or unreviewed financial information, the Task Force notes that this information will be derived from the source of the unadjusted financial information, which will often itself be audited or reviewed. Such source will therefore provide the basis for the practitioner to determine whether there is factual support for the divestee financial information. However, where the divestee financial information is derived from a source of unadjusted financial information that has not been audited or reviewed, the practitioner may refer to the guidance applicable when the source of column 1 is not audited or reviewed. Guidance has therefore been provided to that effect in paragraph A32.
37. In relation to acquiree financial information the source of which has not been audited or reviewed, the Task Force notes that the acquiree’s financial statements for the immediately preceding period will have been audited or reviewed (consistent with the precondition discussed in subsection (a) above), and therefore provide some comfort to the practitioner. In such circumstances, procedures that the practitioner may perform will be similar to those that the practitioner may perform in circumstances where the source of column 1 has not been audited or reviewed, except that such procedures will be directed at sources of information within the acquiree as opposed to within the entity. Guidance has therefore been provided to that effect in paragraph A34.

Matter for IAASB Consideration

Q3. Does the IAASB agree with the changes the Task Force proposes above?

C. “PUBLISHED” VS. AUDITED SOURCE OF COLUMN 1

38. A few respondents¹⁷ questioned the focus on publication of the source of column 1 in the ED. They were of the view that the most important issue would be to know whether or not the source has been audited or reviewed, instead of whether or not the related report has been “published.” In addition, they suggested that there is no difference between the assurance obtained from published audit or review reports and that obtained from unpublished reports.
39. The Task Force accepted that, for purposes of the practitioner’s work effort, the overriding consideration should be whether the source of column 1 has been audited or reviewed. Accordingly, except for the instances noted in paragraph 40 below, the Task Force has replaced all references to “published audit or review reports” in the proposed standard with, where appropriate, references to whether there is an audit or review report on the financial information, or whether such a report has been issued.
40. In relation to the references to a “published audit or review report” in the practitioner’s report (paragraph 35(c)(ii)) and in the disclosures accompanying the PFI (paragraph A39), the Task Force does not believe that it would be appropriate to replace such references with whether an audit or review report has been issued. In particular, disclosing that there is a review report on the source would de facto make such a review public, which would go against the private nature of such review engagements in some jurisdictions. Accordingly, the requirement for the practitioner to state in the practitioner’s report whether an audit or review report on the source has been published remains unchanged. Equally, in relation to the list of disclosures that may appropriately accompany the PFI, the reference to whether an audit or review report has been published on the source of the unadjusted financial information remains unchanged.

Matter for IAASB Consideration

Q4. Does the IAASB agree with how the Task Force has dealt with the issue of “published audit or review report” as described above?

D. DISTINCTION BETWEEN APPLICABLE CRITERIA AND BASIS STATED

41. One respondent (CNCC) was of the view that there may be confusion in the proposed standard between the “applicable criteria” and what is generally referred to as “the basis of compilation.” In the respondent’s view, these concepts are different. For this reason, the respondent argued that the two proposed wordings for the opinion in the ED (one referring to the “applicable criteria” and the other to the “basis stated”) are not equivalent.
42. The respondent suggested that, in the EU context, the applicable criteria are the generic, and therefore very general, criteria for the compilation of PFI in accordance with the Prospectus Directive. By contrast, the basis of compilation would be tailor-made to the entity’s circumstances. The respondent felt that the term “basis stated” in the ED refers as much to the basis of compilation as to the applicable criteria. The respondent therefore

¹⁷ CNCC, FSR, IDW, PwC

suggested that, to clarify the concept of “basis stated,” a definition of the term “basis of compilation” be provided in the standard.

43. The Task Force accepted that the term “basis stated” as used in the ED may be read as being broader than the applicable criteria, as the pro forma financial information will be compiled not only in accordance with the applicable criteria but also in accordance with any specific provisions that the responsible party may determine necessary to appropriately illustrate the effects of the event or transaction on the unadjusted financial information (for example, the selection of an appropriate date or period for the PFI).
44. Accordingly, the Task Force proposes that the term “basis stated” be defined as follows:
- The applicable criteria together with explanatory notes describing how the applicable criteria have been applied in illustrating the effects of the particular event or transaction. (See paragraph 11(b)).*
45. Guidance has also been provided in paragraph A7.

Matter for IAASB Consideration

Q5. Does the IAASB agree with the proposed definition and guidance for the term “basis stated?”

E. USE OF PROFIT FORECASTS AS THE BASIS FOR COLUMN 1

46. Paragraph A8 of the ED explained the following in relation to column 1:

Unadjusted financial information used in the process to compile pro forma financial information will, in most cases, be historical in nature. Some jurisdictions may, nevertheless, permit the use of profit forecasts as the unadjusted financial information. However, as an engagement to be covered by this ISAE requires the relevant pro forma adjustments to be capable of being factually supported, where proposed adjustments are based on future anticipated outcomes related to the profit forecasts, they would not be factually supportable.

47. Several respondents¹⁸ highlighted ambiguity in this guidance. Some (CNCC, NZICA) suggested that the consequence of the circumstance described should be explicitly stated along the lines of: “Accordingly, the practitioner will not be able to report in accordance with this ISAE.” Others (DTT, EY) were of the view that the standard should make clear that it would not be appropriate for the practitioner to accept the engagement when profit forecasts are used as the basis for column 1.
48. The Task Force accepted the concerns regarding the ambiguity in the proposed guidance. The Task Force does not believe that it would be appropriate for the IAASB to impose a restriction on the use of profit forecasts as the unadjusted financial information, as this should be a matter for law or regulation to determine. Accordingly, the Task Force proposes that the guidance be deleted.

Matter for IAASB Consideration

Q6. Does the IAASB agree that the guidance in paragraph A8 of the ED should be deleted?

¹⁸ CNCC, DTT, EY, FSR, NZICA, PwC

F. TERMINOLOGY

(i) *Use of the Terms “Compile” and “Compilation”*

49. Paragraphs 2 and 3 of the ED seek to explain the distinction between the practitioner’s responsibilities in an assurance engagement to report under the ISAE and an engagement to compile financial information under ISRS 4410.¹⁹ These were included in the ED to mitigate the risk of confusion amongst readers regarding the nature and degree of the practitioner’s involvement in the compilation of the PFI.
50. Two respondents (FEE and IOSCO) felt that the risk of misunderstanding would persist despite the inclusion of these paragraphs in the proposed standard. They therefore suggested that more detailed explanations be provided.
51. Two other respondents (ACCA and CNCC), however, indicated no difficulty with using the terms “compile” and “compilation” in relation to the two different types of engagement. They felt that these explanatory paragraphs in the ED could introduce reader uncertainty where none is present. Accordingly, they suggested that this material be deleted.
52. Given the balance of the handful of views on this issue and the fact that no other respondents have commented on the use of this terminology in the proposed standard, the Task Force proposed that no change be made.

Matter for IAASB Consideration

Q7. Given the balance of views amongst those respondents who commented on this matter and the fact that other respondents did not raise any issue on the matter, does the IAASB agree that no change should be made in relation to paragraphs 2 and 3 of the ED?

(ii) *Use of the Term “Credible”*

53. Paragraph A29 of the ED indicates that one of the factors that may affect the appropriateness of the source of column 1 is whether the source is credible.
54. One respondent (IDW) questioned the appropriateness of using the term “credible” on the ground that such term is generally associated in the audit literature with the “assurance taken” by users of assurance reports. The respondent suggested that the term be replaced by the phrase “prepared in accordance with the applicable financial reporting framework.”
55. The Task Force accepted that the use of the term “credible” would introduce ambiguity. Accordingly, the Task Force has redrafted the guidance in paragraph A27 to avoid the use of this term.

Matter for IAASB Consideration

Q8. Does the IAASB agree with how the Task Force has redrafted the guidance in paragraph A27?

¹⁹ ISRS 4410, *Engagements to Compile Financial Statements*

G. LEVEL OF DESCRIPTION OF WORK EFFORT IN THE ILLUSTRATIVE REPORT

56. Several respondents²⁰ commented that the description of the procedures in the illustrative report amounted to excessive detail, appearing to be like a “recipe” for the engagement or even making the engagement appear like an agreed-upon procedures engagement. They contrasted this approach with that taken in illustrative reports in other IAASB assurance standards, which adopt a more summarized description of work performed. Some of the respondents also highlighted a mismatch or inconsistency between the description of the procedures in the report and the requirements in the ED. They therefore suggested a more summarized and generic approach to such description, including highlighting that the work effort depends on the practitioner’s professional judgment.
57. Two respondents (IOSCO and IRBA), however, felt that it would be important for the report to contain a full and complete description of the procedures the practitioner has performed, rather than a generic description. They felt that this would facilitate readers’ understanding of the nature of the assurance conveyed, and of the auditor’s association and work performed. One of them (IOSCO) was of the view that the description in the report did not completely reflect the procedures required in the ED. Accordingly, the respondent suggested adding to the description of procedures to provide a more complete illustration.
58. The Task Force believes that the arguments presented by those respondents who expressed preference for a more summarized description of the work performed are persuasive. The Task Force notes that the argument put forward by the two respondents who prefer a more expansive description that such a description would help users better understand the nature of the assurance conveyed could equally be applied to audits and reviews of financial statements. In addition, the Task Force believes that the longer the list becomes, the more comprehensive it would appear to be. This would, in turn, be potentially misleading given that for practical purposes such a list may not fully capture the nature and entire breadth of procedures that the practitioner may perform in the engagement circumstances.
59. Further, the Task Force notes that the IAASB has already taken a summarized approach to the description of the practitioner’s work in the report for assurance engagements to be addressed by the proposed ISAE 3410 and proposed ISRE 2400 (Revised).²¹ In particular, the explanatory memoranda for the exposure drafts of these two proposed standards note the following:
- Proposed ISAE 3410: “The practitioner’s report in a reasonable assurance engagement is ordinarily in the short-form, that is, it follows a standard wording and only briefly describes procedures performed. This is because describing in detail the specific procedures performed would not assist users to understand that, in all reasonable assurance engagements where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the practitioner to express a conclusion in the positive form.”

²⁰ CNCC, EY, FAR, FEE, ICAEW, KPMG, NIVRA

²¹ Proposed ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, and proposed ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

- Proposed ISRE 2400: “Under the proposed ISRE, the practitioner’s report describes the work undertaken in a review with reference to the primary types of procedures performed ... The IAASB understands that it is in the public interest for users of the financial statements to have a clear understanding of the limited assurance obtained by the practitioner in a review engagement. The IAASB has considered whether the practitioner’s report should set out a more detailed articulation of the procedures performed. Arguably, doing so might enable users to understand more fully the work effort applied in the engagement. The IAASB believes, however, that, in a review where specified *types* of procedures are required (that is, primarily inquiry and analytical review), there is no need to provide that level of detail. Indeed it is recognized that doing so might introduce the potential for misunderstanding, as readers of the report may infer from the level of detail a higher level of assurance than is actually the case.”

60. Given this IAASB position, the Task Force proposes that the description of the work effort in the report be summarized, mirroring the description in paragraph 6 of the nature of an engagement to report on proper compilation (see paragraph 35(h)). As the summarized elements described in paragraph 6 are linked via cross reference to the detailed performance requirements in the proposed standard, this ensures that the description of the nature of the engagement in the report captures all the main aspects of the engagement.

Matter for IAASB Consideration

- Q9. Does the IAASB agree with the proposed change to the description of the engagement in the report?

H. OTHER MATTERS

(i) *Restriction on Distribution or Use of the Report*

61. A few respondents²² suggested the inclusion of a restriction on the distribution or use of the report. One of them (CNCC) took the view that doing so could help minimize the risk of misunderstanding in jurisdictions that do not have a regulatory requirement for reporting on proper compilation. Another one (DTT) suggested that the PFI is, by its nature, special purpose information that is prepared in a specific context (i.e., for the filing of a prospectus with a securities regulator).
62. It was suggested that wording similar to that provided in ISA 800²³ be used:

Restriction on Use

Without modifying our opinion, we draw attention to Note X to the pro forma financial information, which explains that the pro forma financial information is issued for the purpose of inclusion in the prospectus filed with [Securities Commission XX] and may not be suitable for another purpose.

²² CNCC, DTT, FSR

²³ ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 14

63. The Task Force did not agree that it would be appropriate to require the practitioner to limit the distribution or use of the report given that the prospectus in which the report is to be included is itself a public document. The Task Force believes that this matter is more a risk management issue for the firms to address from their own individual perspectives. Accordingly, the Task Force proposes that no change be made.

Matter for IAASB Consideration

Q10. Does the IAASB agree that it would not be appropriate to include a restriction on distribution or use in the report?

(ii) *Linkage with ISAE 3000*

64. Many respondents²⁴ highlighted the need to align the proposed standard with the proposed revised ISAE 3000.
65. The Task Force notes that the approach for the proposed ISAE has been modeled on the extant ISAE 3000, consistent with how the IAASB has developed ISAE 3402.²⁵ The Task Force notes that this will be a matter for further consideration by the IAASB as the project to revise ISAE 3000 progresses.

I. CONSIDERATION OF WHETHER TO DEVELOP A STANDARD ON REPORTING ON PFI

66. The explanatory memorandum to the ED asked for respondents' views on the following question:

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?
- (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?
67. The majority of respondents²⁶ did not support the development of a standard on reporting on PFI. Amongst the reasons they provided were the following:
- There is no internationally recognized and accepted framework for the preparation of PFI.
 - There are considerable conceptual problems associated with the provision of assurance on hypothetical figures given that the PFI does not represent actual

²⁴ ACCA, CESR, FEE, FSR, KPMG, ICAEW, ICJCE, IOSCO, JICPA

²⁵ ISAE 3402, *Assurance Reports on Controls at a Service Organization*

²⁶ APB, CESR, CNCC, FACPCE, FARSRS, FSR, GT, ICAEW, ICAIre, ICJCE, ICAP, ICPAS, JICPA, MIA/MICPA, NIVRA, PwC, RAJNISH

financial outcomes for the entity on which a “true and fair” or “present fairly” opinion might be rendered, but rather merely illustrates what the financial effects of an event or a transaction might have been on the entity.

- There is little evidence of significant demand internationally for such a standard.
 - Such a standard would not be compatible with local regulation or market practice.
 - Such a standard could create a greater divide internationally.
68. It was suggested, instead, that national auditing standard setters should develop appropriate standards to meet any legal or regulatory need for reporting on PFI.
69. However, some respondents²⁷ were in favor of the IAASB developing a standard on reporting on PFI, mainly on the ground that this would better meet their market needs. A few of these respondents (AASC, IOSCO, SECNZ) suggested addressing both reasonable and limited assurance engagements on the PFI, whereas another respondent (Australian Accounting Institutes) preferred only a limited assurance option from a risk management perspective.
70. Most of the respondents who favored a standard on reporting on PFI, however, did not express any specific views as to whether either reasonable or limited assurance engagements (or both) on PFI should be catered for. In addition, where respondents did indicate that both types of engagement should be catered for, they either did not offer any suggestions as to the nature of the work effort involved or how such work effort should be differentiated between the two types of engagement, or provided mixed views.
71. A third group of respondents²⁸ suggested that the IAASB should first survey stakeholder demand before deciding whether to develop a standard on reporting on PFI. Notwithstanding this suggestion, it was noted that a reasonable assurance engagement on PFI may not be a viable option in the end given the practical constraints of time and cost in the context of securities offerings.
72. Given the above responses, and setting aside the conceptual issues associated with reporting on PFI, the Task Force is of the view that there is insufficient support and evidence of demand at this time to justify a project to develop a standard on reporting on PFI.

Matter for IAASB Consideration

Q11. Does the IAASB agree that there is insufficient justification at this time for a project to develop a standard on reporting on PFI?

²⁷ AASC, Australian Accounting Institutes, Baker Tilly Russia, HKICPA, Hunter College, some members of IOSCO, IRBA, SECNZ

²⁸ ACCA, AICPA, CICA, DTT, EY, FEE, IDW, KPMG, SAICA

Appendix

List of Respondents

#	Abbreviation	Name
IFAC Member Bodies		
1.	ACCA	The Association of Chartered Certified Accountants
2.	AICPA	American Institute of Certified Public Accountants
3.	CNCC-CSOEC	Compagnie Nationale des Commissaires aux Comptes + Conseil Supérieur de l'Ordre des Experts-Comptables
4.	FACPCE	Federación Argentina de Consejos Profesionales de Ciencias Económicas
5.	FARSRS	FARSRS
6.	FEE	Federation des Experts Comptables Europeens
7.	FSR	Foreningen af Statsautoriserede Revisorer
8.	HKICPA	Hong Kong Institute of Certified Public Accountants
9.	ICAEW	The Institute of Chartered Accountants in England and Wales
10.	ICAIre	The Institute of Chartered Accountants in Ireland
11.	ICAP	Institute of Chartered Accountants of Pakistan
12.	ICJCE	Instituto de Censores Jurados de Cuentas de España
13.	ICPAS	Institute of Certified Public Accountants of Singapore
14.	IDW	Institut der Wirtschaftsprüfer
15.	JICPA	The Japanese Institute of Certified Public Accountants
16.	MIA-MICPA	Malaysian Institute of Accountants & The Malaysian Institute of Certified Public Accountants
17.	Australian Institutes	National Institute of Accountants in Australia
18.	NIVRA	Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)
19.	SAICA	The South African Institute of Chartered Accountants
National Auditing Standard Setters		
20.	AASC	The Philippines Auditing and Assurance Standards Council
21.	APB	UK Auditing Practice Board

#	Abbreviation	Name
22.	AUASB	Australian Auditing and Assurance Standard Board
23.	CICA-AASB	The Canadian Institute of Chartered Accountants
24.	NZICA	New Zealand Institute of Chartered Accountants
Regulators and Oversight Authorities		
25.	CESR	Committee of European Securities Regulators
26.	IRBA	Independent Regulatory Board for Auditors, South Africa
27.	IOSCO	International Organisation of Securities Commissions
28.	SEC-NZ	Securities Commission–NZ
Firms		
29.	Baker Tilly Russia	Baker Tilly Russia
30.	DTT	Deloitte Touche Tohmatsu
31.	EY	Ernst & Young Global
32.	GT	Grant Thornton International
33.	KPMG	KPMG
34.	PWC	PricewaterhouseCoopers
Others		
35.	Hunter College	Hunter College Graduate Program–Economics
36.	Rajnish	Rajnish Ramchurun