

Invitation to Comment

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

prepared by:
Auditing and Assurance Standards Board

Comments are requested by August 20, 2010

AASB

INVITATION TO COMMENT ASSURANCE REPORTS ON THE PROCESS TO COMPILE PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS

Introduction

The Auditing and Assurance Standards Board (AASB) is issuing this Invitation to Comment to urge Canadian stakeholders to provide input on the Exposure Draft of a proposed new International Standard on Assurance Engagement (ISAE) 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*, recently issued by the International Auditing and Assurance Standards Board (IAASB).

The IAASB Exposure Draft consists of a Guide for Respondents with specific questions for stakeholders and a draft of ISAE 3420. The Exposure Draft seeks stakeholders' comments on a broad range of matters such as the following:

- Is the work effort set out in the proposed ISAE sufficient and appropriate to enable the practitioner to express an opinion?
- Is it clear from the illustrative practitioner's report provided in the Appendix to the proposed ISAE that the practitioner is reporting on the process to compile the pro forma financial information and not on the pro forma financial information itself?
- Is it desirable for the IAASB to develop a separate standard on reporting on the pro forma financial information?

Stakeholders are encouraged to provide comments on the IAASB's Exposure Draft directly to the IAASB, and provide the AASB with a copy of the response.

Background

The proposed ISAE 3420 focuses on providing assurance on the process to compile pro forma financial information and not on the pro forma financial information itself. Based on its review of the proposed ISAE (and subject to further consideration based on input from Canadian stakeholders), the AASB is concerned that an engagement to provide assurance on the process of compilation may not meet the needs of investors who are more likely to care about the pro forma financial information, not the process for compiling it. Further, such an engagement may not be clearly understood by stakeholders. A clearer approach, for example, would be for the practitioner to undertake an engagement to perform specified procedures focused on key aspects of the process for preparing the compiled information and the disclosure of that information. In Canada, such an engagement would be undertaken in accordance with REPORTS ON THE RESULTS OF APPLYING SPECIFIED AUDITING PROCEDURES TO FINANCIAL INFORMATION OTHER THAN FINANCIAL STATEMENTS, Section 9100.

Canadian securities regulations do not currently contain any requirement for a securities issuer's auditor to audit, or otherwise provide any assurance on, the pro forma financial information included in prospectuses. However, there could be greater focus on such reporting if it becomes accepted practice in various jurisdictions around the world.

Responding to the IAASB Exposure Draft

The IAASB's [Exposure Draft](#) of proposed ISAE 3420 is available on the IAASB website.

For the reasons stated above, it is important that Canadian stakeholders provide input to the IAASB's Exposure Draft of ISAE 3420, especially to questions 2 to 4 in the IAASB's Guide for Respondents:

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 pro forma financial information (PFI) has, in all material respects, been applied in accordance with the applicable 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.
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?
 - 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?

Please refer to the "Guide for Respondents" contained in the IAASB's Exposure Draft and respond to the specific questions asked therein.

Stakeholders are encouraged to provide comments on the IAASB's Exposure Draft directly to the IAASB, and provide the AASB with a copy of the response.

Providing input to the AASB

If copies of responses to the IAASB are received before August 20, 2010, the AASB will be able to take these comments into account in formulating its own response to the IAASB's Exposure Draft.

While the AASB is committed to adopting the International Standards on Auditing (ISAs), it is not compelled to adopt other international standards, including ISAE's. Due to the AASB's significant concerns regarding the proposed ISAE 3420, the AASB has no plans to adopt ISAE 3420 for use in

Canada at this time. Accordingly, the AASB is not issuing an Exposure Draft to adopt ISAE 3420 in Canada. Any proposed new Canadian assurance standard would go through due process, including public exposure.

Comments relating to matters for the AASB to consider in reviewing ISAE 3420, including the possibility of adopting ISAE 3420 for use in Canada, would be most helpful if they clearly explain the issues raised and suggest a specific course of action, supported by specific reasoning.

All comments directed to the AASB will be available on the web site at www.aasb.ca approximately 10 days after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

Comments for the attention of the AASB should be addressed to:

Greg Shields, CA
Director, Auditing and Assurance Standards
The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, ON. M5V 3H2