

August 20, 2010

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

Dear Mr. Shields,

We appreciate the opportunity to comment on the IAASB Exposure Draft, ISAE 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus* (the ED).

Based on our review of the ED, we are concerned that the public interest would not be well served with the issuance of this proposed ISAE. We support the Auditing and Assurance Standards Board (AASB) in their initial views on the ED stated in their Invitation to Comment: 1) an engagement to provide assurance on the process of compilation of pro forma financial information (PFI) may not be clearly understood by stakeholders, and 2) Such an engagement may not meet the needs of investors who are more likely to care about the Pro Forma Financial Information (PFI), not the process used for its compilation.

Notwithstanding our overriding comment noted above, we have provided responses to the specific questions raised by the IAASB in the ED.

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

The AASB has no plans to adopt ISAE 3420 for use in Canada. We support the AASB in this decision.

- 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?*

No. We believe that the work effort set out in the proposed ISAE creates confusion as to whether the practitioner is reporting on the process to compile the PFI or the PFI itself. Specifically, the requirements of paragraphs 13, 15, 18 and 22, and the related "Application and Other Explanatory Material", are overly prescriptive and difficult for a practitioner to report on without

performing work on the PFI and thereby at least implicitly providing assurance on the PFI itself not just on the compilation process used.

- 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 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.*

We believe that the "Illustration of a Practitioner's Report with an Unmodified Opinion" in the Appendix to the proposed ISAE makes it clear that the practitioner is reporting on the process to compile the PFI and not the PFI itself, except for the Opinion paragraph. Specifically, the second alternative in the Opinion paragraph, "*the PFI has been properly compiled on the basis stated*", can be interpreted by a stakeholder that the practitioner is providing assurance on the financial accuracy of the PFI itself. Further, this alternative gives no consideration to two important elements of an assurance engagement: materiality (as "in all material respects" is not included) and the applicable framework/criteria under which the engagement was performed.

- 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?*

We believe that developing a separate standard on reporting on the PFI itself will create confusion amongst all stakeholders. If the IAASB determines there is a need for such a standard, or if regulatory bodies mandate such a requirement, we suggest that the IAASB consider combining the requirement to report on the process to compile the PFI and the PFI itself in one standard where the practitioner would provide one opinion in relation to both elements. Providing assurance on both the process and the PFI itself may be necessary to satisfy the needs of securities regulators around the world. In our view, this may still result in confusion.

Providing assurance solely on the PFI may be the most straight forward approach and most readily understood by all stakeholders. In relation to whether reasonable or limited assurance should be addressed, in our view this depends on the needs of stakeholders and regulatory bodies and the standard's ability to clearly differentiate between these two levels of assurance. Inclusion in one standard of procedures and reporting for both levels of assurance will likely make the

standard overly complex and difficult to understand. If the option of either reasonable or limited assurance is provided this should be done by way of two separate standards. The challenge will be to have stakeholders understand the difference in the level of assurance provided.

It is difficult to assess the implications on the work effort without first understanding the objective of an alternate standard. However, we expect the work effort would be increased from that in the currently proposed ISAE. Further, the IAASB would need to determine whether existing standards on assurance engagements would apply to such an engagement, or whether completely new and standalone guidance would need to be developed that encompasses all required elements of such an assurance engagement.

Other items for which the IAASB requested comments include:

*Translations*—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.

We have not identified any translation issues at this time.

*Effective Date*—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.

We foresee no issues with the proposed effective date.

We have not provided the IAASB with a copy of these comments as we have limited them to a Canadian context for the consideration of the AASB. Our global firm, DTT, will respond directly to the IAASB with comments from an international perspective.

Once again, we appreciate the opportunity to comment.

Yours truly,



---

J. Andrew Cook, FCA  
National Professional Practice Director  
Deloitte & Touche LLP