



INDEPENDENT ASSURANCE REPORTS

INDEPENDENT ASSURANCE REPORTS

An independent assurance report (IAR) (also referred to as an investigating accountant's report) provides assurance in relation to historical, pro forma and/or forecast financial information included in a disclosure document (e.g. a prospectus). IARs are prepared in accordance with the requirements of the Auditing and Assurance Standards Board (AUASB).

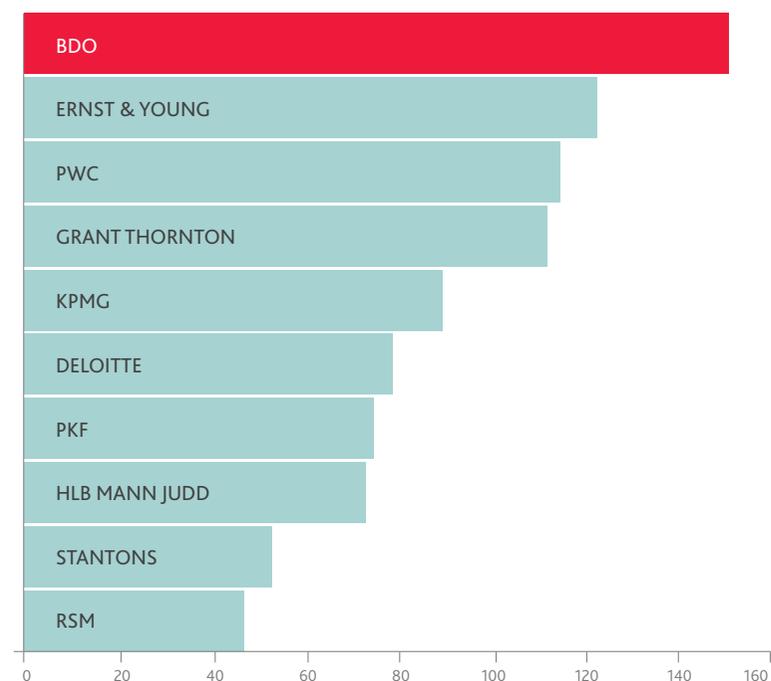
BDO is experienced in providing companies with IARs to meet a range of requirements from initial public offerings (IPOs) and subsequent capital raisings to significant acquisitions and reverse takeovers.

BDO keeps clients informed of the latest disclosure document trends, regulatory changes, reporting requirements, insights and ideas to manage risk through the often complex and stressful processes that require disclosure documents.

Our services include audit or review of historical financial information, review of pro-forma financial information, review of forecast financial information and attendance / reporting to the Due Diligence Committee (DDC).

We have compiled this e-Book which provides an overview of the process for IAR engagements, the roles your company and its advisers play in this process, and the deliverables you can expect in an IAR engagement.

BDO IS THE MARKET LEADER IN THE PREPARATION OF IARS



Source: Connect 4, wholly owned business of Thomson Reuters (Professional) Australia Limited based on number of transactions from 2005 to 2016 as at 31 January 2017

IAR WHAT YOU NEED TO KNOW



1 WHEN IS AN IAR REQUIRED?

2 OUR APPROACH TO IARS

3 PROCESS AND TIMING

4 INFORMATION REQUIREMENTS AND DELIVERABLES

5 REGULATORY ENVIRONMENT

6 HOW BDO CAN ASSIST YOU

WHEN IS AN IAR REQUIRED?

WHEN IS AN IAR REQUIRED?

An IAR is generally commissioned to report on:

- ▶ Historical, pro forma or prospective financial information prepared in connection with a corporate fundraising to be included in a public or non-public document
- ▶ Prospective financial information (including a pro forma forecast) for any other purpose.

IARs are commissioned for the "offer" of securities which is either the issue of new securities, or the sale of existing securities.

- ▶ An offer of securities for issue will require a disclosure document (and IAR) unless a specific exemption applies
- ▶ An offer of securities for sale will only require a disclosure document (and IAR) in specific circumstances.

An IAR is most commonly required as part of the process to list on an exchange (e.g. the Australian Securities Exchange).

WHAT IS INCLUDED IN AN IAR?

- ▶ An IAR is a short report which provides a limited assurance opinion, drawn from the procedures completed during the IAR process
- ▶ An IAR sets out a scope of work, limitations and the conclusion of the work completed on the financial information.

An IAR is included in the prospectus or other relevant disclosure document.

WHO CAN PREPARE AN IAR?

IARs are prepared by experienced accounting and finance professionals who are generally an auditing/accounting/advisory firm with demonstrated experience in preparing IARs.

To review forecast financial information, the firm is required to hold an Australian Financial Services Licence (AFSL) which allows the firm and its authorised representatives to provide general financial product advice.

IS AN IAR THE SAME AS AN AUDIT?

An IAR usually provides a lower level of assurance than an audit.

It is market practice for a limited assurance conclusion to be provided, rather than an audit opinion (notwithstanding that much of the underlying historical financial information will be audited).

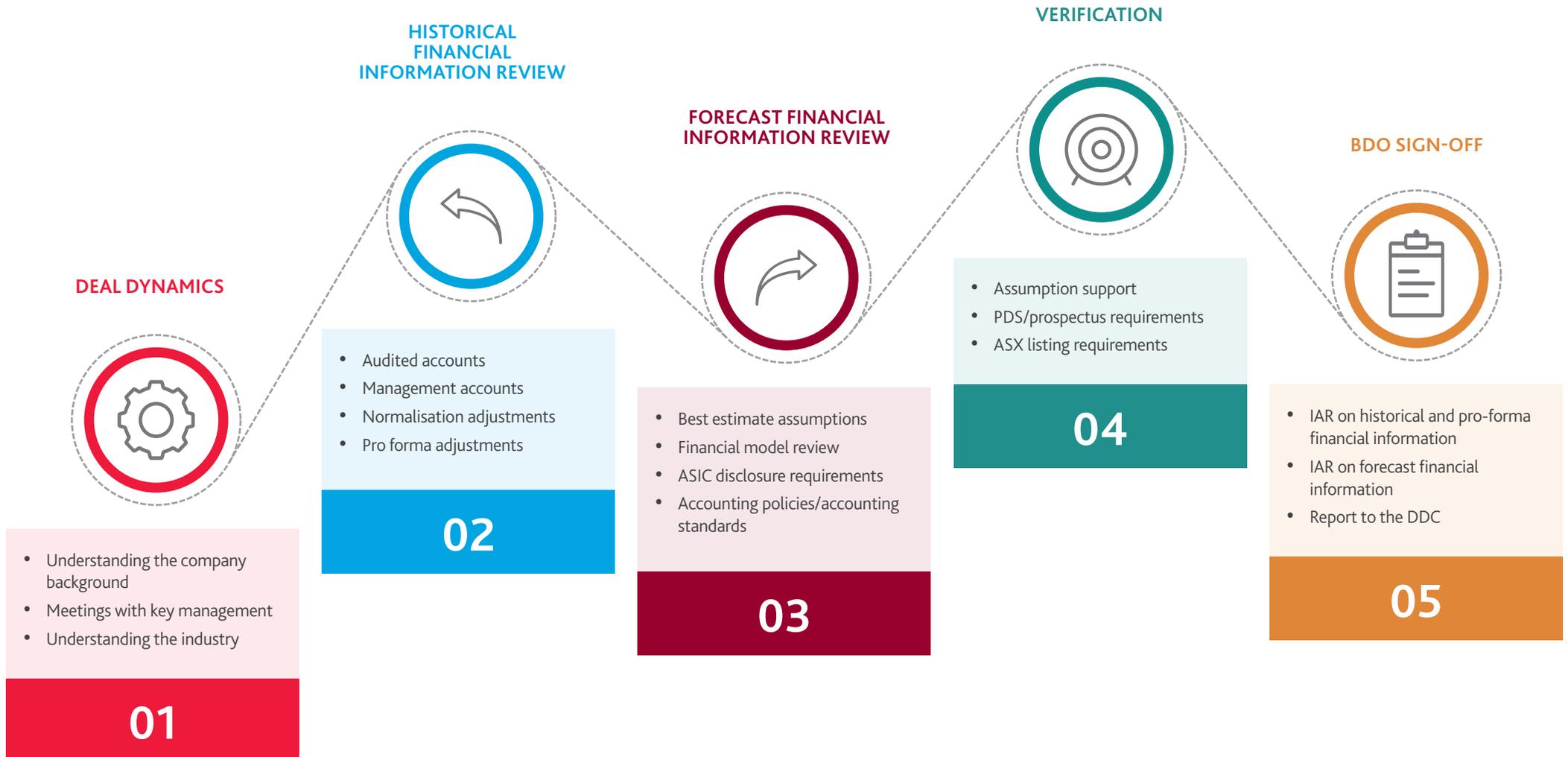
An IAR usually provides a limited assurance conclusion (negative assurance). For example an assurance conclusion may be: Nothing has come to our attention to suggest that the financial information is not presented fairly in all material respects, in accordance with the stated basis of preparation.

An audit provides a reasonable assurance opinion (positive assurance). For example: In our opinion, the financial information is presented fairly in all material respects, in accordance with the stated basis of preparation.

IS A FORECAST REQUIRED?

A forecast is not necessarily required to be included in a public document. RG 170 (discussed later) provides guidance on including a forecast in your prospectus. Common examples of situations that may not require a forecast include:

- ▶ If an entity is listing under the assets test per the ASX listing rules
- ▶ If an entity has no operating history
- ▶ If there is no 'reasonable grounds' for the forecast financial information.



1 WHEN IS AN IAR REQUIRED?

2 OUR APPROACH TO IARS

3 PROCESS AND TIMING

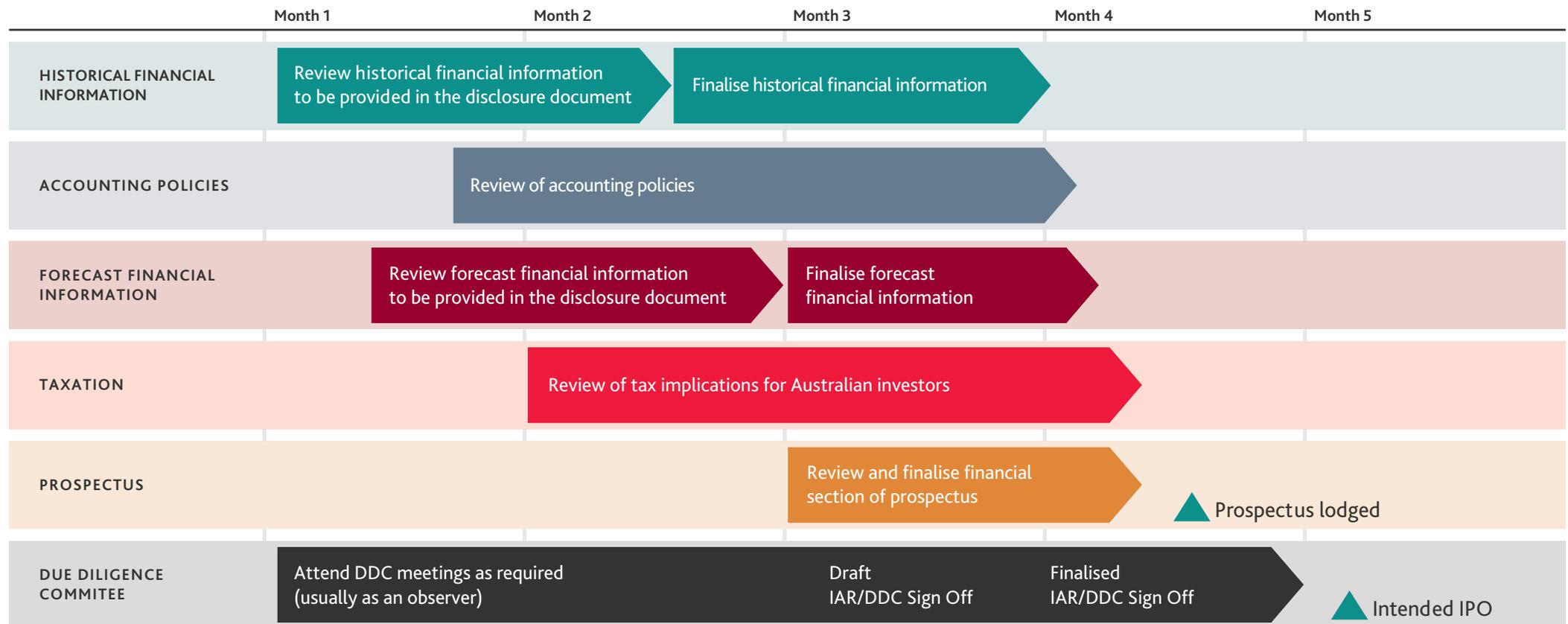
4 INFORMATION REQUIREMENTS AND DELIVERABLES

5 REGULATORY ENVIRONMENT

6 HOW BDO CAN ASSIST YOU

PROCESS AND TIMING

Below is an indicative process and timeline map for the preparation of an IAR which is able to be tailored as required for individual engagements.



INFORMATION REQUIREMENTS AND DELIVERABLES

AS A GUIDE, THE MINIMUM INFORMATION REQUIRED FOR AN IAR WILL INCLUDE:

- ▶ Audited accounts of your company for the last three years (with some exceptions)
- ▶ Access to audit files
- ▶ Management accounts for the most recent year to date
- ▶ Details of accounting policies/accounting standards adopted
- ▶ A financial model showing forecast financial performance
- ▶ Best estimate forecast assumptions
- ▶ Supporting information related to the assumptions
- ▶ Drafts of the Disclosure Document (particularly the financial section).

OUR DELIVERABLES GENERALLY INCLUDE:

- ▶ Formal engagement letter detailing scope and agreed fee
- ▶ Materiality guidance letter (sets out guidance with respect to the quantitative materiality thresholds for consideration by the company and the DDC for the disclosure document)
- ▶ A presentation to the DDC on the work completed
- ▶ IAR (for inclusion in the disclosure document)
- ▶ Sign Off Letter to the DDC
- ▶ Taxation report to the DDC (provides tax sign off on the disclosure document).



REGULATORY ENVIRONMENT

Keeping well-informed of the regulatory environment is key in ensuring that a transaction process meets the stated goals. The financial information required to be presented in a disclosure document is governed by the *Corporations Act 2001*, as enforced by the Australian Securities and Investments Commission (ASIC) and, where relevant, the exchange on which the company is proposed to be (or is currently) listed (e.g. the ASX). An IAR may be commissioned to assist a company to comply with the regulatory requirements summarised below.

ASIC REGULATORY GUIDE ('RG') 228 - PROSPECTUSES: EFFECTIVE DISCLOSURE FOR RETAIL INVESTORS

ASIC's RG228 sets out the financial information that is required to be disclosed in a prospectus including information about a company's financial position, financial performance and prospects. While there are some exceptions, in general, the following key financial information is required to be disclosed in a prospectus:

- ▶ Three years audited financial information for an income statements and a cash flow statement (or two years audited information and half- year reviewed information, depending on the date of the prospectus). If half-year reviewed information is included, it is also necessary to present prior period comparative information
- ▶ An audited statement of financial position as at the most recent year end (or reviewed half-year, depending on the date of the prospectus)
- ▶ Prospective financial information to at least the end of the current financial year (only where there are reasonable grounds to do so)
- ▶ Pro forma financial information is required to satisfy the disclosure requirements of the Corporations Act (e.g. to show the effect of a proposed transaction).



REGULATORY ENVIRONMENT

ASX LISTING RULES

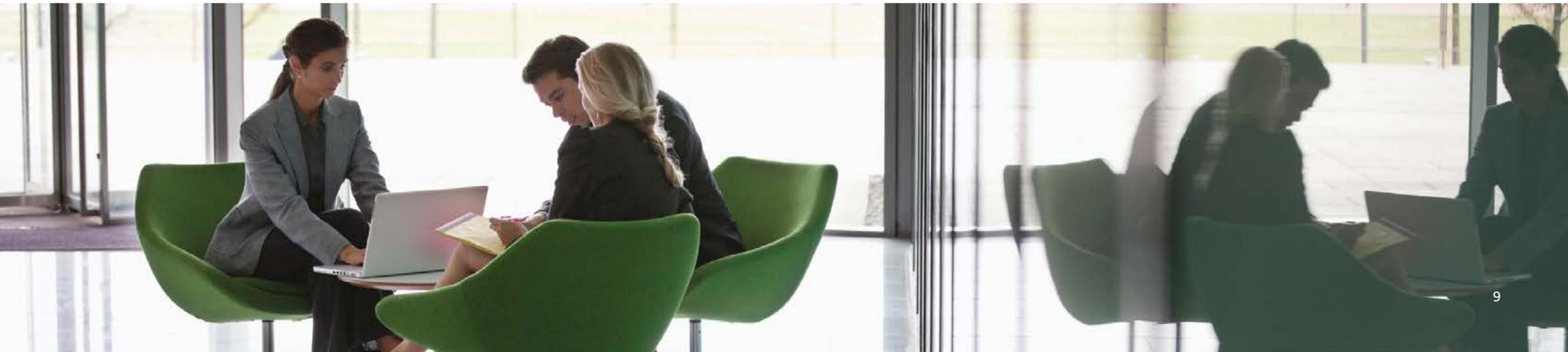
In November 2016, the ASX updated its listing requirements which is relevant for companies undergoing the IPO process. The key listings admission rule changes are:

- ▶ For profit test entities, an increase in the requirement for consolidated profits for the 12 months prior to admission from \$400,000 to \$500,000
- ▶ An increase in the net tangible assets test from \$3 million to \$4 million
- ▶ An increase in the market capitalisation test from \$10 million to \$15 million
- ▶ A new 20% minimum free float requirement
- ▶ A single tier spread test requiring at least 300 security holders each holding at least \$2,000 of securities
- ▶ Disclosure to the market of two full financial years of audited accounts for the entity seeking admission and any significant entity or business that it has acquired in the 12 months prior to applying for admission or that it proposes to acquire in connection with its listing (NB: this is superseded by RG228's requirements for three years (with some exceptions))
- ▶ A standardised \$1.5 million working capital requirement for all entities admitted under the net tangible assets test.

RG 170 – PROSPECTIVE FINANCIAL INFORMATION

RG 170 provides guidance as to whether you should include a forecast in your prospectus.

- ▶ An issuer of a financial product must meet its disclosure obligations. In particular, an issuer must decide whether prospective financial information needs to be disclosed because a person would reasonably require that information to decide whether to acquire the product or to make an informed assessment about the product
- ▶ An issuer must assess on a case-by-case basis if prospective financial information needs to be disclosed in a disclosure document. In making that assessment, the issuer should consider:
 - a) the nature and extent of the obligation to make disclosure required under the Corporations Act;
 - b) the information value of what is being disclosed by ensuring there are 'reasonable grounds' for the inclusion of the information; and
 - c) the risk that the disclosure might be misleading.



1 WHEN IS AN IAR
REQUIRED?

2 OUR APPROACH TO IARS

3 PROCESS AND TIMING

4 INFORMATION REQUIREMENTS
AND DELIVERABLES5 REGULATORY
ENVIRONMENT6 HOW BDO CAN
ASSIST YOU

HOW BDO CAN ASSIST YOU

If you require an IAR, our technical skills and in-depth commercial experience will ensure that you receive the best advice to enable your transaction process to run as smoothly as possible.

We also have access to, and work closely with, the relevant local and international expertise within the BDO network where necessary to ensure that the work is completed efficiently and effectively.



NEED HELP?

TO CONTACT US TODAY, [CLICK HERE](#) ALTERNATIVELY, PLEASE CALL US ON 1300 138 991





NEW SOUTH WALES
NORTHERN TERRITORY
QUEENSLAND
SOUTH AUSTRALIA
TASMANIA
VICTORIA
WESTERN AUSTRALIA

1300 138 991

www.bdo.com.au

Distinctively different – it's how we see you
AUDIT • TAX • ADVISORY

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact the BDO member firms in Australia to discuss these matters in the context of your particular circumstances. BDO Australia Ltd and each BDO member firm in Australia, their partners and/or directors, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO refers to one or more of the independent member firms of BDO International Ltd, a UK company limited by guarantee. Each BDO member firm in Australia is a separate legal entity and has no liability for another entity's acts and omissions. Liability limited by a scheme approved under Professional Standards Legislation other than for the acts or omissions of financial services licensees.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2018 BDO Australia Ltd. All rights reserved. BNE_06/18

