

INDEPENDENT LIMITED ASSURANCE REPORTS

CORPORATE FINANCE E-BOOK

BDO IS THE MARKET LEADER IN THE PREPARATION OF ILARS

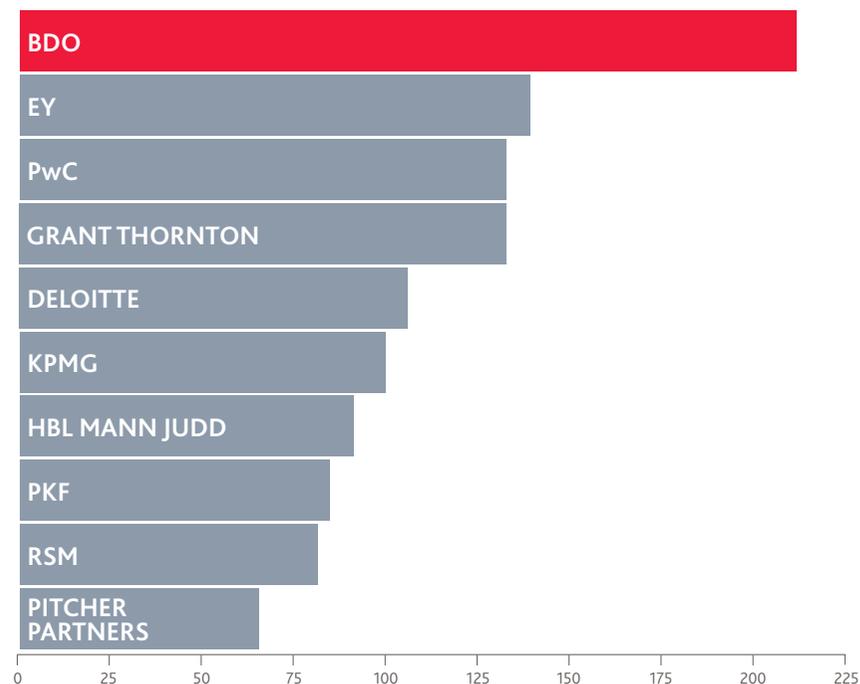
An independent limited assurance report (ILAR) (also referred to as an investigating accountant's report) provides assurance in relation to historical, pro forma and/or forecast financial information included in a disclosure document (e.g. a prospectus). ILARs are prepared in accordance with the requirements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

BDO is experienced in providing companies with ILARs 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 and reporting to the Due Diligence Committee (DDC).

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



Source: Connect 4, wholly-owned business of Thomson Reuters (Professional) Australia Limited based on number of transactions from 2005 to 2020 as at 22 January 2020

WHEN IS AN ILAR REQUIRED?

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An ILAR 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.

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

An ILAR 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 ILAR?

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

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

WHO CAN PREPARE AN ILAR?

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

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 ILAR THE SAME AS AN AUDIT?

An ILAR 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 ILAR 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.*

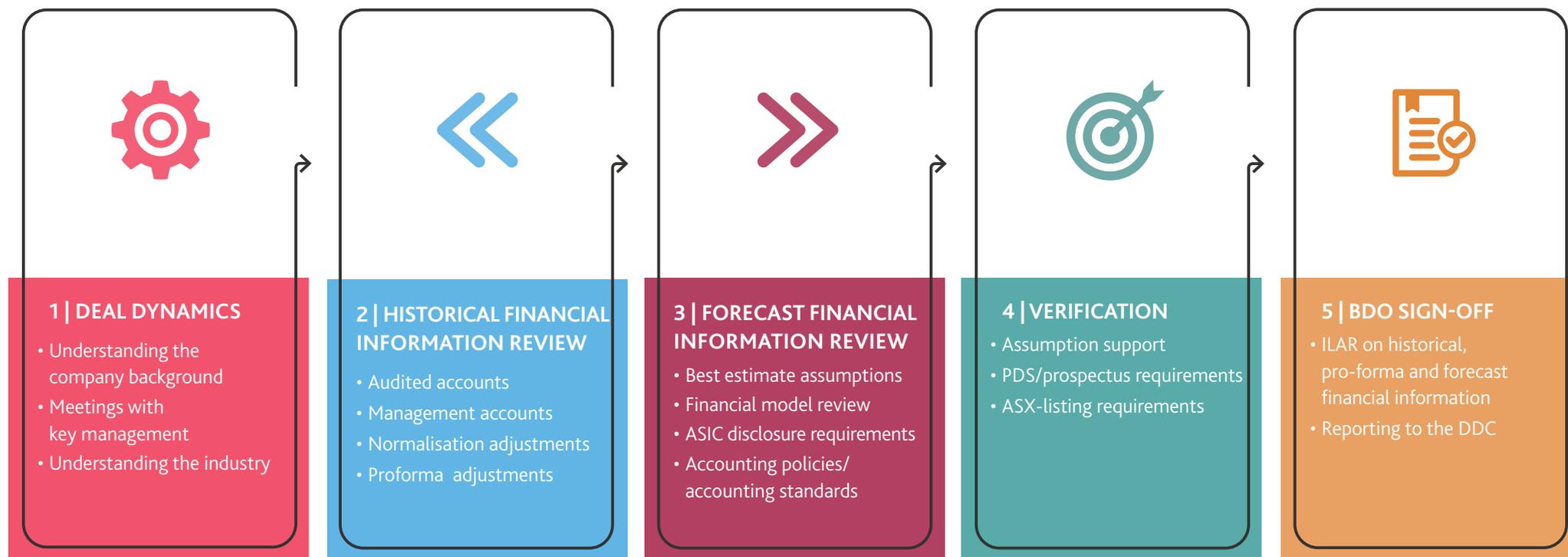
IS A FORECAST REQUIRED?

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:

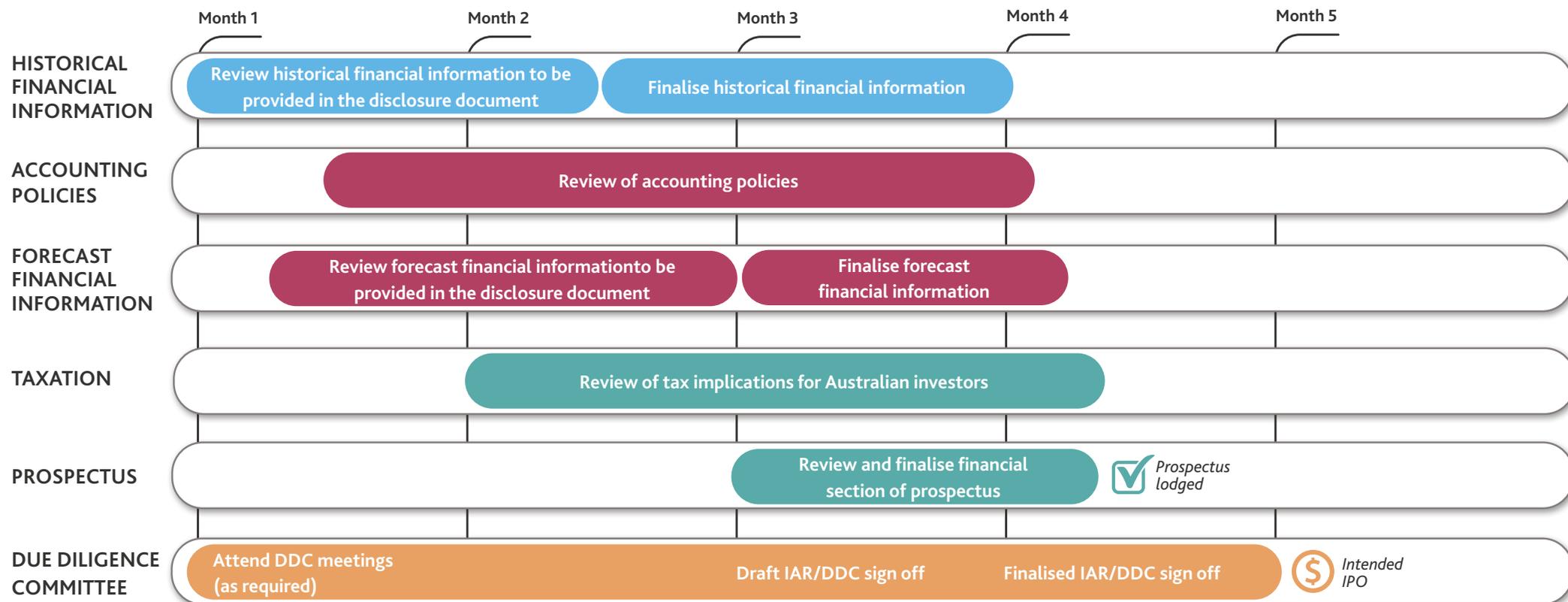
- ▶ If an entity is listing under the assets test per the ASX-listing rules
- ▶ If an entity has no operating history
- ▶ If there is no 'reasonable grounds' for the forecast financial information.



OUR APPROACH TO ILARS



INDICATIVE ILAR PREPARATION PROCESS AND TIMING



INFORMATION REQUIREMENTS AND DELIVERABLES

MINIMUM INFORMATION REQUIRED FOR AN ILAR

- 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
- Supporting information related to the assumptions
- Drafts of the disclosure document (particularly the financial section)

OUR DELIVERABLES

- 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
- ILAR (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 ILAR 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 RG 228 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 CONT.

ASX-LISTING RULES

ASX-listing rules set out requirements to list with ASX. To list with ASX, a company must satisfy the minimum admission criteria, including structure, size, free float and number of shareholders.

The key ASX-listings requirements are listed in the table below.

ADMISSION CRITERIA		GENERAL REQUIREMENT
Number of shareholders		Minimum 300 non-affiliated investors at A\$2,000
Free float		20%
Company size	Profit test	A\$1 million aggregated profit from continuing operations over past three years, plus A\$500,000 consolidated profit from continuing operations over the last 12 months
	Asset test	A\$4 million net tangible assets or A\$15 million market capitalisation
Audit requirements		Two full financial years of audited accounts for the entity seeking admission and any significant entity or business it has acquired in the 12 months prior to applying for admission, or it proposes to acquire in connection with its listing (please note, this is superseded by RG 228's requirements for three years (with some exceptions))

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:
 - The nature and extent of the obligation to make disclosure required under the Corporations Act
 - The information value of what is being disclosed by ensuring there are 'reasonable grounds' for the inclusion of the information
 - The risk that the disclosure might be misleading.



BDO CAN ASSIST YOU

If you require an ILAR, our technical skills and in-depth commercial experience ensures you receive the best advice to facilitate a smooth transaction process.

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



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