Assurance Reports on the **Proper Compilation of Process to Compile** Pro Forma Financial Information Included in a Prospectus—Draft International Standard on Assurance Engagements 3420

(Effective for assurance reports dated on or after [date])

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Introduction

Scope of this ISAE

1. This International Standard on Assurance Engagements (ISAE) deals with reasonable assurance engagements undertaken by a professional accountant in public practice (for purposes of this ISAE referred to as a “practitioner”) to report publicly on the proper compilation of pro forma financial information included in a prospectus, where such reporting is required by securities law or the regulation of the securities exchange (“relevant law or regulation”), or where it is generally accepted practice, in the jurisdiction in which the prospectus is to be issued, or where this reporting is generally accepted practice in such jurisdiction.

2. In an engagement performed under this ISAE, the practitioner has no responsibility for compiling the pro forma financial information for the entity. Responsibility for the compilation rests with the responsible party, with the practitioner being responsible for reporting on the process applied by the responsible party to compile the pro forma financial information. This ISAE does not deal with non-assurance engagements in which the practitioner is engaged by the entity to compile its historical financial statements. Such engagements are dealt with in ISRS 4410.

3. This ISAE also does not deal with engagements to examine and report on prospective financial information (including profit forecasts). Such engagements are dealt with in ISAE 3400.

Purpose of Pro Forma Financial Information Included in a Prospectus

4. The purpose of pro forma financial information included in a prospectus is to provide intended users with illustrative information about how an event or transaction might have affected unadjusted financial information of the entity, had the event occurred or the transaction been undertaken at an earlier date selected for purposes of the illustration. This is achieved by applying pro forma adjustments to the unadjusted financial information. Pro forma financial information in and of itself does not constitute financial statements and, therefore, does not represent the entity’s actual financial position, financial performance, or cash flows.

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1 The Code of Ethics for Professional Accountants developed by the International Ethics Standards Board for Accountants (IESBA Code) defines a professional accountant as “an individual who is a member of an IFAC member body,” and a professional accountant in public practice as “a professional accountant, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.”

2 In many circumstances, the practitioner will be the auditor of the reporting entity.

3 The International Framework for Assurance Engagements, paragraphs 25-26, describes the meaning of the term “responsible party.”


5 ISAE 3400, “The Examination of Prospective Financial Information.”
Nature of an Assurance Engagement to Report on the Compilation of Pro Forma Financial Information

5. An assurance engagement to report publicly on the compilation of pro forma financial information included in a prospectus may be directed either at the process by which the responsible party within the entity has compiled the pro forma financial information or at the pro forma financial information itself. This ISAE deals only with the former.

75. The process of compiling pro forma financial information involves the responsible party gathering, classifying and summarizing relevant financial information. Steps that are ordinarily involved in properly compiling pro forma financial information include the following:

- Identifying an appropriate source of the unadjusted financial information to be used in the compilation of the pro forma financial information; (Ref: Para. A3)
- Appropriately extracting the unadjusted financial information from the relevant source; (Ref: Para. A4)
- Considering the appropriateness of the accounting policies for the purpose of determining pro forma adjustments necessary for the pro forma financial information to be compiled on the basis of consistent accounting policies and the entity’s financial reporting framework;
- Making appropriate pro forma adjustments to the unadjusted financial information for the purpose for which the pro forma financial information is presented; and
- Making an accurate computation of the pro forma financial information; and
- Appropriately presenting the resulting pro forma financial information within the context of in accordance with the applicable criteria and in a way that is not misleading, including making appropriate providing disclosures to enable intended users to understand the pro forma financial information.

In this ISAE, describing the pro forma financial information as being “properly compiled” means that the responsible party has, in all material respects, applied the process of compilation in accordance with the applicable criteria.

6. The purpose of the practitioner’s procedures with regard to the process of compilation is to enable the practitioner to express an opinion as to whether the pro forma financial information has been properly compiled by the responsible party on the basis stated report on the process applied. The practitioner’s report does not include the expression of an opinion on the pro forma financial information itself or on the unadjusted or any other underlying financial information.

Relationship with Other Professional Pronouncements

7. The performance of assurance engagements other than audits or reviews of historical financial information requires the practitioner to comply with ISAE 3000. ISAE 3000 includes requirements in relation to such topics as engagement acceptance, planning, evidence, and documentation that apply to all assurance engagements, including engagements in accordance with this ISAE. This ISAE expands on how ISAE 3000 is to be applied in a reasonable assurance engagement to report on the proper compilation of pro forma financial information included in a prospectus. The International Framework for Assurance Engagements, which defines and describes the elements and objectives of an assurance engagement, provides context for understanding this ISAE and ISAE 3000.

8. Compliance with ISAE 3000 requires, among other things, that the practitioner comply with the independence and other requirements of the Code of Ethics for Professional Accountants developed by the International Ethics Standards Board for Accountants (“IESBA Code”), and implement quality control procedures that are applicable to the individual engagement.

Effective Date

409. This ISAE is effective for assurance reports dated on or after [date].

Objectives

410. The objectives of the practitioner are:

(a) To obtain reasonable assurance about whether the process applied by the responsible party to compile the pro forma financial information has been properly compiled on the basis is in accordance with the applicable criteria stated; and

(b) To report in accordance with the practitioner’s findings.

Definitions

112. For purposes of this ISAE, the following terms have the meanings attributed below:

(a) Applicable criteria – The criteria to be applied in the compilation of in accordance with which the process to compile the pro forma financial information is to be applied for inclusion in the prospectus. (Ref: Para. A56-A68)

(b) Basis of compilation — Basis selected and adopted by the responsible party, in accordance with the applicable criteria, for the compilation of the pro forma financial information in the context of the event or transaction the significant effects of which are being illustrated. (Ref: Para. A2)

(be) Pro forma adjustments – Any adjustments made to unadjusted financial information that are necessary to compile the pro forma financial information, including:

7 ISAE 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information.”
8 ISAE 3000, paragraphs 4 and 6.
(i) Adjustments to **reflect-illustrate** the **impact of a significant effects of the event or transaction** (“event” or “transaction”); and

(ii) Adjustments necessary for the **pro forma financial information to be compiled on a basis of compilation to be consistent with the accounting policies and financial reporting framework** of the reporting entity (hereinafter referred to as “entity”) **under its applicable financial reporting framework**. (Ref. Para. A7)

Pro forma adjustments include the relevant financial information of a business that has been, or is to be, **acquired in a business combination** (hereinafter referred to as “acquiree”), or a business that has been, or is to be, **divested in a divestment** (hereinafter referred to as “divestee”), to the extent that such information is used in the compilation of the **pro forma financial information** (“target acquiree or divestee financial information”).

(d) **Pro forma financial information** — Financial information shown together with adjustments to **illustrate the significant effects of an event or transaction on unadjusted financial information of the entity assuming that the event or transaction had occurred at an earlier date used for the illustration**. Pro forma financial information includes related explanatory notes. (Ref. Para. A3)

(e) **Proper compilation** — The result of a process involving:

(i) **Identifying** an appropriate source of the unadjusted financial information and **appropriately extracting** the information from that source;

(ii) **Making appropriate pro forma adjustments** to the unadjusted financial information; and

(iii) **Appropriately presenting** the resulting pro forma financial information within the context of the applicable criteria and in a way that is not misleading, including **making appropriate disclosures** to enable intended users to understand the pro forma financial information.

Pro forma financial information that has been produced as a result of this process is described as **being properly compiled**.

(cf) **Prospectus** — **Unless specifically defined in relevant law or regulation**, a **document issued pursuant to legal or regulatory requirements relating to the entity’s securities on which it is intended that a third party should make an investment decision**.

(dg) **Published financial information** — **Financial information of the entity or of an acquiree or divestee that is made available publicly pursuant to a legal or regulatory requirement**.

(gh) **Published audit or review report** — an **audit or review report on the source of the unadjusted or target financial information** that is made available publicly pursuant to a legal or regulatory requirement.

(i) **Target financial information** — See paragraph 12(e).
(f) Unadjusted financial information – Financial information of the entity to which pro
forma adjustments are applied by the responsible party to compile the pro-forma
financial information. (Ref: Para. A8)

Requirements

ISAE 3000

The practitioner shall not represent compliance with this ISAE unless the practitioner has
complied with the requirements of this ISAE and ISAE 3000.

Engagement Acceptance

Before agreeing to accept an engagement to provide assurance-report on the process to
compile proper compilation of pro forma financial information included in a prospectus,
the practitioner shall:

(a) Determine that:

(i) The practitioner has the capabilities and competence to perform
the engagement; and (Ref: Para. A9)

(ii) The applicable criteria are likely to be suitable; (Ref: Para. A6-A8)

(b) On the basis of a preliminary knowledge of the engagement circumstances and
discussion with the responsible party, determine whether:

(i) The responsible party has the appropriate competence to perform a proper
compilation of the pro forma financial information in accordance with the
applicable criteria; (Ref: Para. A9)

(ii) The applicable criteria are likely to be suitable and it is unlikely that the
pro forma financial information will be misleading for the purpose for which
it is intended; and

(iii) The practitioner will likely be able to perform the procedures required by this
ISAE; and (Ref: Para. A10)

(iv) The responsible party will not impose any limitation on the scope of the
engagement;

(c) Evaluate the required form–wording of reporting the opinion prescribed by the
relevant law or regulation, if any, to determine whether the practitioner will
likely be able to report in the required form under express the opinion so prescribed
based on performing the procedures specified in this ISAE; and (Ref: Para. A56-A57)

(d) Where relevant, determine whether the relevant law or regulation permits the use of,
or reference in the practitioner’s report to, a modified audit opinion or review
conclusion or a report containing an Emphasis of Matter paragraph with respect to
the source of the unadjusted financial information; and

(de) Obtain the agreement of the responsible party that it acknowledges and understands
its responsibility for: (Ref: Para. A11-A12)
(i) Providing a reference to Disclosing the applicable criteria if these are publicly available, or otherwise disclosing them and who developed them;

(ii) Making judgments that provide a reasonable basis for reflecting the significant effects of appropriate pro forma adjustments to illustrate the impact of the event or transaction in the pro forma financial information;

(iii) Properly compiling Applying the process to compile the pro forma financial information on the stated basis of compilation and in accordance with the applicable criteria; and

(iv) Providing the practitioner with:
   a. Access to all information (including, where possible, information of acquirees in a business combination), such as records, documentation and other material, relevant to the compilation and presentation of process to compile the pro forma financial information;
   b. Additional information that the practitioner may request from the responsible party for the purpose of the engagement;
   c. Unrestricted access to those within the entity and the entity’s advisors from whom the practitioner determines it necessary to obtain evidence relating to the compilation process; and
   d. Where possible, unrestricted access to appropriate individuals within acquirees in a business combination.

Planning and Performing the Engagement

Assessing the Suitability of the Applicable Criteria

145. As part of assessing whether the applicable criteria are suitable, as required by ISAE 3000, the practitioner shall determine whether that they encompass, at a minimum, that:

   (a) The unadjusted financial information be extracted from an appropriate source; (Ref: Para. A1.13)

   (b) The unadjusted financial information be at an appropriate date or cover an appropriate period; (Ref: Para. A1.15)

   (b) The pro forma adjustments be:

   (i) Directly attributable to the event or transaction; (Ref: Para. A1.46)

   (ii) Factually supportable; and (Ref: Para. A8. A1.57-A1.8)

   (iii) Consistent with the entity’s accounting policies under its applicable financial reporting framework; and (Ref: Para. A1.649-A1.17)

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9 ISAE 3000, paragraph 19.
(cè) **Adequate**—**Appropriate presentation be made and disclosures be made in the pro forma financial information provided to enable the intended users to understand the pro forma financial information.** (Ref: Para. A1-A2, A45)

[SUB PARAGRAPHS (i)-(vi) MOVED TO PARA A46]

156. In addition, the practitioner shall assess whether the applicable criteria are:

(a) Consistent, and do not conflict, with relevant laws and regulations;

(b) Unlikely to result in pro forma financial information that is misleading **in the circumstances**; and

(c) Adequately disclosed **if not publicly available.** (Ref: Para. A18)

**Materiality**

167. When planning and performing the engagement, the practitioner shall consider materiality with respect to the **process to compile proper compilation of** the pro forma financial information. (Ref: Para. A20-A23)

**Obtaining an Understanding of the Responsible Party’s Process to Compile the Pro Forma Financial Information and Other Engagement Circumstances**

18. In order to obtain a sufficient understanding of the pro forma financial information and other engagement circumstances to identify and assess the risks that the pro forma financial information may not be properly compiled, the practitioner shall read the pro forma financial information and perform the procedures set out in paragraphs 19-23.

**Obtaining an Understanding of the Compilation Process and the Basis of Compilation**

2317. The practitioner shall obtain an understanding of:

(a) The **practitioner shall obtain an understanding of the** event or transaction in respect of which the pro forma financial information is being compiled; (Ref: Para. A28)

(b) The **compilation process applied by the responsible party to compile the pro forma financial information and the basis of compilation of the pro forma financial information.** (Ref: Para. A2533-A3427)

**Obtaining an Understanding of the Entity and Its Environment**

19. The practitioner shall obtain an understanding of the following as they relate to the compilation of the pro forma financial information: (Ref: Para. A24)

(c) The nature of the entity **and any acquiree or divestee**, including:

(i) **Its** operations;

(ii) **Its** assets and liabilities; and

(iii) The way **it is** structured and how **it is** financed;

(d) Relevant industry, legal and regulatory, and other external factors pertaining to the entity and any acquiree or divestee; and (Ref: Para. A3025-A322)
(ee) The entity’s applicable financial reporting framework and the accounting and financial reporting practices of the entity and of any acquiree or divestee, including its selection and application of accounting policies.

Obtaining an Understanding of the Event or Transaction

20. [MOVED TO PARA 17(a)]

Obtaining an understanding of an acquiree in a business combination

21. If the transaction is a business combination, the practitioner shall obtain an understanding of the following aspects of the acquiree, insofar as these aspects relate to the compilation of the pro forma financial information: (Ref: Para. A29–A30)

(a) The nature of the acquiree, including its operations, assets and liabilities, and the way it is structured and financed;

(b) The nature of any relationships with the entity; and

(c) Its financial reporting framework and its accounting and financial reporting practices, including its selection and application of accounting policies.

Obtaining an understanding of a divestee in a divestment

22. If the transaction is a divestment, the practitioner shall obtain an understanding of the following aspects of the divestee, insofar as these aspects relate to the compilation of the pro forma financial information: (Ref: Para. A31–A32)

(a) The nature of the divestee, including its operations, assets and liabilities, and the way it is structured and financed; and

(b) The nature of its relationship with the entity.

Evaluating the Process Applied by the Responsible Party to Compile the Pro Forma Financial Information

Obtaining Evidence Regarding the Unadjusted and Any Target Financial Information

Appropriateness of the unadjusted financial information

2418 The practitioner shall read the financial information that represents the source of the unadjusted financial information, including any audit or review report published thereon, and determine whether the responsible party has:

(a) Used the appropriate source of the unadjusted financial information; and is appropriate in the context of the applicable criteria. (Ref: Para. A33–A38, A35–A41)

(b) Appropriately extracted the unadjusted financial information from the source. (Ref: Para. A4)
Factual support for any target financial information

25. The practitioner shall read the financial information that represents the source of the target financial information, including any audit or review report published thereon, and determine whether the source is factually supportable. (Ref: Para. A17-A18, A42-A45)

Extraction of the unadjusted and any target financial information from the relevant sources

26. The practitioner shall determine whether the unadjusted and any target financial information has been appropriately extracted and summarized from the relevant sources.

Obtaining Evidence Regarding the Pro Forma Adjustments

Determining the pro forma adjustments to be made

29. The practitioner shall determine whether the responsible party has identified the pro forma adjustments necessary for the proper compilation of the pro forma financial information.

Procedures with respect to the pro forma adjustments

30. The practitioner shall determine whether: (Ref: Para. A51)

(a) They are consistent with the basis of compilation; the responsible party has appropriately identified the pro forma adjustments; and (Ref: Para. A39)

(b) They are directly attributable to the event or transaction; the pro forma adjustments are in accordance with the applicable criteria; (Ref: Para. A51-A6, A14-A17, A40)

(c) The responsible party has obtained appropriate factual support for them; (Ref: Para. A17-A18)

(d) They are consistent with the entity’s accounting policies and financial reporting framework; and (Ref: Para. A19)

20. (e) They have been appropriately derived arithmetically and that the calculations within the pro forma financial information are arithmetically accurate; reflects the proper application of those adjustments to the unadjusted financial information.

Modified audit opinion or review conclusion, or emphasis of matter with respect to either the source of the unadjusted financial information or the source of the target financial information

27. If a modified audit opinion or review conclusion has been expressed with respect to either the source of the unadjusted financial information or the source of the target acquiree or divestee financial information, or where a report containing an Emphasis of Matter paragraph has been issued with respect to that such source, and the relevant law or regulation does not prohibit the use of such a source, the practitioner shall consider: (Ref: Para. A41-A42)

(a) The potential consequence on the process of compiling the pro forma financial information; (Ref: Para. A49)
(b) What further action to take; and (Ref: Para. A50)

(c) Whether there is any effect on the practitioner’s ability to report under in accordance with the terms of the engagement, including any impact-effect on the practitioner’s report.

Unadjusted financial information inappropriate or target financial information not factually supportable

2822 If, on the basis of the procedures performed, the practitioner becomes aware of a matter that causes the practitioner to believe concludes that the responsible party has: (Ref: Para. A20-A23)

(a) The Used a source of the unadjusted financial information that is not appropriate; or

(b) The target financial information is not factually supportable; or Omitted a pro forma adjustment that should be included, or otherwise inappropriately applied a pro forma adjustment.

(c) The unadjusted or target financial information might result in the pro forma financial information being misleading, the practitioner shall discuss the matter with the responsible party. If the practitioner is unable to agree with the responsible party as to how the matter should be resolved, the practitioner shall consider determine the implications for the practitioner’s report. (Ref: Para. A52)

Omitted Adjustments

31. If, as a result of the procedures the practitioner has performed to obtain an understanding of the entity and the event or transaction, the practitioner concludes that an adjustment has been omitted that, in the practitioner’s judgment, the responsible party should include for purposes of the compilation, the practitioner shall discuss the matter with the responsible party. If the practitioner is unable to agree with the responsible party as to how the matter should be resolved, the practitioner shall consider the implications for the practitioner’s report. (Ref: Para. A21-A23)

Evaluating the Presentation of the Pro Forma Financial Information

3223 The practitioner shall evaluate whether the pro forma financial information is appropriately presented within the context of in accordance with the applicable criteria. This shall include consideration of:

(a) The overall presentation, structure and content of the pro forma financial information, including whether it is clearly labeled to distinguish it from historical or other financial information;

(b) Whether the pro forma financial information and related—including the explanatory notes, reflects the significant effects illustrate the impact of the event or transaction in a manner that is not misleading; and (Ref: Para. A4352-A44)
(c) Whether the pro forma financial information provides appropriate disclosures are provided with the pro forma financial information to enable the intended users to understand the information conveyed, including: (Ref: Para. A45)

(i) The nature and purpose of the pro forma financial information, including the nature of the event or transaction; (Ref: Para. A20)

(ii) The source of the unadjusted financial information, whether or not an audit or review report on such a source has been published, and, if so, where such a report may be found, whether in the prospectus or otherwise; (Ref: Para. A14)

(iii) The basis of compilation;

(iv) The nature of the pro forma adjustments;

(v) In the case of either a business combination or a divestment, the source of the target financial information and whether or not an audit or review report on the source has been published;

(vi) A reference to, or description of, the applicable criteria in accordance with which the pro forma financial information has been compiled; and (Ref: Para. A6-A8)

(vii) A statement to the effect that the pro forma financial information has been compiled for illustrative purposes only and that, because of its nature, it does not represent the entity’s actual financial position, financial performance, or cash flows.

Other Information

3324. The practitioner shall read the other information included in the prospectus containing the pro forma financial information in respect of which the practitioner is reporting to identify material inconsistencies, if any, with the pro forma financial information. (Ref: Para. A52) 34. If, on reading the other information, the practitioner identifies a material inconsistency or becomes aware of an apparent misstatement of fact in that other information, the practitioner shall discuss the matter with the responsible party. If correction of the matter is necessary and the responsible party refuses to do so, the practitioner shall take further appropriate action. (Ref: Para. A5346)

Written Representations

3525. The practitioner shall request written representations from the responsible party that:

(a) In compiling the pro forma financial information, the responsible party has identified all appropriate pro forma adjustments necessary to give effect to illustrate the impact of the event or transaction at the date or for the period of the illustration have been made, including any adjustments necessary for the pro forma financial information to be compiled on the basis of consistent accounting policies and the entity’s financial reporting framework; (Ref: Para. A47)
(b) The omission of any pro forma adjustments omitted from the process of compilation because they do not meet the applicable criteria does not render the pro forma financial information misleading; and

(c) The process to compile the pro forma financial information has been appropriately applied to reflects all the significant effects of the event or transaction by illustrating how that event or transaction might have affected the unadjusted financial information had the event occurred or the transaction been undertaken at the date of the illustration, and in a way that does not result in the pro forma financial information being not misleading.

36. The written representations shall be in the form of a representation letter addressed to the practitioner. The date of the written representation letter shall be as near as practicable to, but not after, the date of the practitioner’s report.

37. If the responsible party does not provide one or more of the written representations requested by the practitioner, the practitioner shall:

(a) Discuss the matter with the responsible party;

(b) Re-evaluate the integrity of the responsible party and evaluate the effect that this may have on the reliability of representations provided by the responsible party (oral or written) and evidence in general; and

(c) Take appropriate actions, including determining the possible effect on the practitioner’s report.

Forming the Opinion

3826. The practitioner shall conclude whether sufficient appropriate evidence has been obtained that the responsible party’s process to compile the pro forma financial information has been properly compiled on the basis stated applied in accordance with the applicable criteria. (Ref: Para. A5-A64, A48)

39. If the practitioner concludes that an unmodified opinion on the proper compilation of the pro forma financial information is appropriate, the practitioner’s opinion, expressed in the positive form, shall state that “the pro forma financial information has been properly compiled on the basis stated.”

Circumstances When a Modified Opinion Is Appropriate

42. The practitioner shall modify the opinion in the practitioner’s report when:

(a) The practitioner concludes that, based on the evidence obtained, the pro forma financial information has not been properly compiled on the basis stated; or

(b) The practitioner is unable to obtain sufficient appropriate evidence to conclude whether the pro forma financial information is properly compiled.

43. When the practitioner modifies the opinion, the practitioner shall use the heading “Qualified Opinion,” “Adverse Opinion,” or “Disclaimer of Opinion,” as appropriate, for the opinion paragraph.
Description of reasons for modified opinion

44. When the practitioner modifies the opinion, the practitioner shall, in addition to the specific elements set out in paragraph 56 below, include a paragraph in the practitioner’s report that provides a description of the matter giving rise to the modification. The practitioner shall place this paragraph immediately before the opinion paragraph in the practitioner’s report and use the heading “Basis for Qualified Opinion,” “Basis for Adverse Opinion,” or “Basis for Disclaimer of Opinion,” as appropriate.

Qualified opinion

45. The practitioner shall express a qualified opinion when the practitioner, having obtained sufficient appropriate evidence, concludes that a matter that causes the pro forma financial information not to be properly compiled is material but not pervasive.

46. When the practitioner expresses a qualified opinion due to a material matter, the practitioner shall state in the opinion paragraph that, in the practitioner’s opinion, except for the consequences of the matter(s) described in the Basis for Qualified Opinion paragraph, the pro forma financial information has been properly compiled on the basis stated. (Ref: Para. A62)

47. When the modification arises from an inability to obtain sufficient appropriate evidence, the practitioner shall use the corresponding phrase “except for the possible consequences of the matter(s) ...” for the modified opinion.

Adverse opinion

48. The practitioner shall express an adverse opinion when the practitioner, having obtained sufficient appropriate evidence, concludes that matters the practitioner has identified, individually or in the aggregate, are both material and pervasive such that the pro forma financial information has not been properly compiled on the basis stated.

49. When the practitioner expresses an adverse opinion, the practitioner shall state in the opinion paragraph that, in the practitioner’s opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph, the pro forma financial information has not been properly compiled on the basis stated.

Disclaimer of opinion

50. The practitioner shall disclaim an opinion when the practitioner is unable to obtain sufficient appropriate evidence on which to base the opinion, and the practitioner concludes that the possible consequences of undetected matters, if any, that cause the pro forma financial information not to be properly compiled could be both material and pervasive.

51. When the practitioner disclaims an opinion due to an inability to obtain sufficient appropriate evidence, the practitioner shall state in the opinion paragraph that:

(a) Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, the practitioner has not been able to obtain sufficient appropriate evidence to provide a basis for an opinion; and, accordingly,
(b) The practitioner does not express an opinion on the proper compilation of the pro forma financial information.

Emphasis of Matter Paragraph

52. If the practitioner considers it necessary to draw users’ attention to a matter presented or disclosed in the pro forma financial information that, in the practitioner’s opinion, is of such importance that it is fundamental to the process of compilation of the pro forma financial information, the practitioner shall include an Emphasis of Matter paragraph in the practitioner’s report provided that the practitioner has obtained sufficient appropriate evidence that the matter does not cause the pro forma financial information not to be properly compiled. Such a paragraph shall refer only to information presented or disclosed in the pro forma financial information.

Different Wording of Opinion Prescribed by the Relevant Law or Regulation

53. If the relevant law or regulation prescribes the wording of the opinion in terms that are different from those described in paragraph 39, the practitioner shall: (Ref: Para. A10)

(a) Perform any further procedures necessary to enable the practitioner to express the prescribed opinion; and

(b) Evaluate whether intended users of the pro forma financial information might misunderstand the practitioner’s opinion and, if so, whether additional explanation in the practitioner’s report can mitigate possible misunderstanding.

54. If the practitioner concludes that additional explanation in the practitioner’s report cannot mitigate possible misunderstanding, the practitioner’s report shall not indicate that the engagement was conducted in accordance with this ISAE. An engagement conducted in accordance with such law or regulation does not comply with this ISAE.

Assurance on Further Matters Required by the Relevant Law or Regulation

5527. If the relevant law or regulation requires the practitioner to express an opinion on further matters in addition to whether the process to compile the pro forma financial information is properly compiled on the basis stated has been applied in accordance with the applicable criteria, the practitioner shall perform any further procedures necessary to express an opinion on the additional matters. (Ref: Para. A4955–A517)

Modified Opinion

40. In most jurisdictions, the relevant law or regulation will not permit publication of prospectuses that contain modified opinions with respect to the proper compilation of pro forma financial information. Where this is the case and the practitioner concludes that a modified opinion is appropriate, the practitioner shall discuss the matter with the responsible party. If the responsible party does not agree to make the necessary changes, the practitioner shall withdraw from the engagement or consider seeking legal advice.

41. If the relevant law or regulation permits publication of prospectuses containing modified opinions with respect to the proper compilation of pro forma financial information and
the practitioner concludes that a modified opinion is necessary in the circumstances because the responsible party does not agree to make the necessary changes, the practitioner shall issue the practitioner’s report with the modified opinion.

Preparation of the Assurance Report

Content of the Practitioner’s Report

The practitioner’s report shall include the following basic elements: (Ref: Para. A5844)

(a) A title that clearly indicates that the report is an independent assurance report. (Ref: Para. A528)

(b) An addressee(s), as agreed in the terms of engagement. (Ref: Para. A539)

(c) An introductory paragraph that identifies:

(i) The pro forma financial information.

(ii) The source of the unadjusted financial information, and whether or not an audit or review report on such a source has been published, and, if so, where such a report may be found, whether in the prospectus or elsewhere.

(iii) The period covered by, or the date of, the pro forma financial information.

(iv) A reference to the basis of compilation of applicable criteria in accordance with which the process to compile the pro forma financial information has been applied, and the source of the criteria.

(d) A reference to the applicable criteria and the source of the criteria.

(de) A description of the responsibilities of the responsible party’s responsibilities, including a statement that the responsible party is responsible for properly applying the process to compile the pro forma financial information in accordance with the applicable criteria.

(e) A description of the practitioner’s responsibilities, including statements that:

(i) The practitioner’s responsibility is to express an opinion about whether the responsible party’s process to compile the pro forma financial information has been applied properly compiled on the basis in accordance with the applicable criteria stated; and

(ii) The practitioner is not responsible for updating any reports or opinions on any financial information used in the compilation of the pro forma financial information; and

(iii) A statement that the practitioner has not performed an audit or review of the pro forma financial information and, accordingly, does not express an opinion on the pro forma financial information.

(f) A statement that the engagement was performed in accordance with ISAE 3420, “Assurance Reports on the Proper Compilation of Process to Compile Pro Forma Financial Information Included in a Prospectuses,” which requires that the
practitioner comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the responsible party has applied the process to compile the pro forma financial information has been properly compiled on the basis in accordance with the applicable criteria stated.

(h) A description of the purpose of the practitioner’s procedures.

(gi) A summary of the practitioner’s procedures.

(hk) The practitioner’s opinion on the proper application of the process of compilation, in terms of either: (Ref: Para. A16-A19, A55-A57)

(i) Whether the process to compile the pro forma financial information has, in all material respects, been properly compiled on the basis stated applied in accordance with the applicable criteria; or

(ii) Whether the pro forma financial information has been properly compiled on the basis stated.

(i) The practitioner’s signature.

(jm) The date of the report.

(kn) The address where the practitioner maintains the office that has responsibility for the engagement.

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Application and Other Explanatory Material

Purpose of Pro Forma Financial Information Included in a Prospectus (Ref: Para. 4.14(c))

A1. Pro forma financial information may, for example, be compiled to illustrate the effect of an acquisition on the net assets of the entity assuming that the acquisition had taken place at the date of the entity’s most recent statement of financial position.

Pro Forma Financial Information (Ref: Para. 12(d))

A13. Pro forma financial information is ordinarily presented in columnar format consisting of (a) the unadjusted financial information; (b) the pro forma adjustments; and (c) the resulting pro forma financial information. It is accompanied by matters that are ordinarily disclosed within the related explanatory notes that ordinarily disclose the matters set out in paragraph A45 include:

- The nature and purpose of the pro forma financial information, including the nature of the event or transaction
- The source of the unadjusted financial information and whether or not an audit or review report on this source has been published
- The applicable criteria in accordance with which the pro forma financial information has been compiled
Pro Formas—Draft ISAE 3420 (Marked from December)
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• The basis of compilation of the pro forma financial information
• The nature of the pro forma adjustments
• A statement that the pro forma financial information has been compiled for illustrative purposes only and that, because of its nature, it does not represent the entity’s actual financial position, financial performance, or cash flows

Disclosure of the Nature of the Pro Forma Financial Information (Ref: Para. 15(d)(i), 32(c)(i))

A220. Different types of pro forma financial information may be included in the prospectus depending on the nature of the event or transaction and how the responsible party intends to illustrate the effect of such event or transaction on the unadjusted financial information of the entity. For example, where the entity is acquiring a number of businesses prior to an initial public offering, the responsible party may choose to present a pro forma net asset statement to illustrate the impact of the acquisitions on the entity’s financial position and key ratios such as debt to equity. A pro forma income statement to illustrate how selected performance aspects might have turned out had the businesses been combined with the entity at an earlier date. The responsible party may also choose to present a pro forma income statement to illustrate what the results of operations might have been for the period ended on that date to illustrate the effect of the acquisitions on the entity’s financial position and key ratios such as debt to equity. In this regard, such cases, adequate disclosure of the nature of the pro forma financial information may be provided described by titles such as “Statement of Pro Forma Net Assets as at December 31, 20X1” and “Pro Forma Income Statement for the Year Ended December 31, 20X1.”

Nature of an Assurance Engagement to Report on the Process to Compile Pro Forma Financial Information

Source of the Unadjusted Financial Information (Ref: Para. 5, 18(b))

A344. In most cases, the source of the unadjusted financial information will ordinarily be published financial information such as annual or interim financial statements. Some jurisdictions may require this source to be audited or reviewed while others may not.

Extracting the Unadjusted Financial Information (Ref: Para. 5, 18(b))

A4. Depending on how the responsible party chooses to illustrate the impact of the event or transaction, the unadjusted financial information may comprise either one or more unabridged single financial statements, such as a statement of financial position and a statement of comprehensive income, or financial information that is appropriately condensed from unabridged financial statements, such as a statement of net assets.
Definitions

Applicable Criteria (Ref: Para. 112(a), 14(a)(ii), 32(c)(vi))

A56. Applicable criteria specify how the pro forma financial information is to be put together and presented. They criteria for the compilation of pro forma financial information may be either established by an authorized or recognized standard setting organization or by specified in the relevant law or regulation. Established criteria will generally meet at least the benchmarks set out in paragraphs 15-16. A7. Where established criteria do not exist, the responsible party may develop the applicable criteria, for example, based on practice in a particular industry or the criteria of a jurisdiction which has developed established criteria.

A6. The applicable criteria will be considered suitable in the circumstances if they meet at least the benchmarks set out in paragraphs 145-16.

Pro Forma Adjustments (Ref: Para. 11(b))

A7. In some event or transaction circumstances, the entity may encounter types of transaction with which it has not previously had to deal. In this regard, reference to consistency with the entity’s accounting policies under its applicable financial reporting framework includes consistency with accounting policies the entity would have adopted and articulated for such types of transaction under its framework.

A8. In addition to the matters set out in paragraph 15, applicable criteria may also specify the form, presentation, and other content of the pro forma financial information.

Basis of Compilation (Ref: Para. 12(b))

A2. In compiling the pro forma financial information, the responsible party will make certain choices and decisions as to how the pro forma financial information is to be constituted in the light of the event or transaction circumstances. These choices and decisions, which will vary with the nature of the event or transaction and the intended purpose of the pro forma financial information, may concern such matters as:

• The starting point (i.e., the unadjusted financial information) for the compilation of the pro forma financial information (if that starting point has not already been specified in the relevant law or regulation).

• The date of the event or transaction for purpose of the illustration.

• Applicable interest or taxation rates for the pro forma adjustments.

• The accounting treatments chosen to give appropriate effect to the event or transaction (e.g., accounting treatment for a business combination).

Unadjusted Financial Information (Ref: Para. 112(b), 14(b)(ii))

A84. Although unadjusted financial information used in compiling pro forma financial information will ordinarily be historical in nature, some jurisdictions may permit the use of profit forecasts as the unadjusted financial information. However, prior to accepting an engagement to be covered by this ISAE report on the proper compilation of pro
forma financial information based on profit forecasts, the practitioner will consider the requirement of paragraph 15(e)(ii) to determine whether requires the relevant pro forma adjustments are—to be capable of being factually supported. In particular, Where proposed adjustments are based on future anticipated outcomes related to the profit forecasts, they would not be factually supportable.

**Engagement Acceptance**

*Capabilities and Competence to Perform the Engagement (Ref: Para. 134(a)(ii))*

A95. The IESBA Code\(^\text{10}\) requires the practitioner to maintain appropriate professional knowledge and skill, and an awareness and understanding of relevant technical, professional and business developments, in order to provide competent professional service. Within this context, relevant capabilities and competence to perform the engagement also include matters such as the following:

- Knowledge and experience of the industry in which the entity operates;
- An understanding of the relevant securities laws and regulations and related developments;
- An understanding of the listing requirements of the relevant securities exchange and of capital market transactions such as mergers, acquisitions and securities offerings; and
- Familiarity with the process of preparing a prospectus and listing securities on the securities exchange.

*Competence of the Responsible Party (Ref: Para. 14(b)(ii))*

A9. The practitioner may already have prior knowledge of the responsible party’s competence through having previously dealt with the responsible party in an audit or review of the entity’s financial information or in another engagement to report on the proper compilation of pro forma financial information included in a prospectus. If not, the practitioner may obtain an understanding of the responsible party’s competence through discussion with the responsible party or other appropriate individuals within the entity.

*Performance of Required Procedures (Ref: Para. 13(b)(ii))*

A10. Determining that the practitioner will likely be able to perform the required procedures includes determining that the responsible party will not impose any limitation on the scope of the engagement.

*Required Form of Reporting (Ref: Para. 14(c), 53)*

A10. Relevant law or regulation in some jurisdictions may prescribe the wording of the practitioner’s opinion that differs from that specified in this ISAE (see paragraph 39). An evaluation of the required form of reporting enables the practitioner to determine whether the practitioner will likely be able to perform the engagement under this ISAE.

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\(^{10}\) IESBA Code, paragraphs 130.1 and 130.3.
and the nature and extent of work needed to obtain sufficient appropriate evidence to express the opinion in the form required by the relevant law or regulation.

**Agreement of the Responsible Party’s Responsibilities of the Responsible Party** (Ref: Para. 134(de))

A11. An engagement in accordance with ISAE 3000 and this ISAE is conducted on the premise that the responsible party has acknowledged and understands that it has the responsibilities set out in paragraph 134(de). In some jurisdictions, such responsibilities may be specified in the relevant law or regulation. In others, there may be little or no legal or regulatory definition of such responsibilities. An assurance engagement to report on the process to compile proper compilation of pro forma financial information is based on the assumption that:

(a) The practitioner’s role does not involve taking responsibility for the process of compiling such information or for the entity’s related internal control; and

(b) The practitioner has a reasonable expectation of obtaining the information necessary for the engagement insofar as the responsible party is able to provide or procure it.

Accordingly, this premise is fundamental to the conduct of the engagement. To avoid misunderstanding, agreement is reached with the responsible party that it acknowledges and understands that it has such responsibilities as part of agreeing and recording the terms of the engagement as required by ISAE 3000.11

A12. If law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need not record them in a written agreement, except for the fact that such law or regulation applies and that the responsible party acknowledges and understands its responsibilities as set out in paragraph 134(de).

**Planning and Performing the Engagement**

**Assessing the Suitability of the Applicable Criteria** (Ref: Para. 145)

A13. The compilation of pro forma financial information involves the responsible party determining the information that needs to be reflected in the pro forma financial information so as to illustrate the effect of the event or transaction had it happened at the date used for the illustration. Because pro forma financial information, by its nature, is not general purpose financial statements, it is important that the criteria applied in accordance with which it is compiled are appropriate and transparent.

**Period Covered by, or Date of, the Unadjusted Financial Information** (Ref: Para. 15(b))

A15. Factors that may affect the appropriateness of the period or date selected for the unadjusted financial information include whether:

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11 ISAE 3000, paragraph 10.
• It is permitted or required under the relevant law or regulation, or permitted by the relevant securities exchange with which the prospectus is to be filed.

• It is reasonable having regard to the event or transaction and the purpose for which the pro forma financial information is being compiled.

• The selection of such a period or date is common market practice.

Directly attributable adjustments (Ref: Para. 145(he)(i), 3019(b))

A146. In order to avoid the pro forma financial information reflecting matters that do not arise solely as a result of the event or that are not an integral part of the transaction, it is necessary that pro forma adjustments be directly attributable to the event or transaction. Directly attributable adjustments exclude those that relate to future events or are dependent on actions to be taken once the transaction has been completed, even if such actions are key to the entity entering into the transaction (for example, closing of redundant production sites after an acquisition).

Factually supportable adjustments (Ref: Para. 145(he)(ii), 25, 30(e)19(b))

A157. It is also necessary that pro forma adjustments be factually supportable in order to provide a reliable basis for the pro forma financial information. While the nature of the supporting facts will vary with the circumstances, they are nevertheless capable of objective determination. Sources of factual support for the pro forma adjustments include, for example:

• Purchase and sale agreements
• Financing documents for the event or transaction, such as debt agreements
• Independent valuation reports
• Other documents relating to the event or transaction
• Published financial statements
• Other financial information disclosed in the prospectus
• Relevant legal or regulatory actions, such as in the area of taxation
• Employment agreements
• Actions of those charged with governance

A18. Pro forma adjustments themselves may be extracted from other sources of financial information. For example, in the case of a business combination, the pro forma adjustments may include a statement of net assets extracted and summarized from audited financial statements of the acquiree.

Pro forma adjustments consistent with the entity’s accounting policies and financial reporting framework (Ref: Para. 145(he)(iii), 30(d)19(b))

A1619. For the pro forma financial information to be meaningful, it is necessary criterion is that the pro forma adjustments are be consistent with the entity’s accounting policies
and under its applicable financial reporting framework so that the resulting pro forma financial information is not misleading. Consequently, in the particular context of a business combination, for example, the compilation of pro forma financial information involves consideration of such matters as:

- Whether differences exist between the acquiree’s accounting policies and those of the entity;
- Whether any accounting policies for specific types of transaction areas of in the acquiree’s financial information with which the entity has not previously had to deal that are new to the entity are in accordance with the policies that the entity’s financial reporting framework would have adopted for such types of transaction under its applicable financial reporting framework.

A17. A consideration of the appropriateness of the entity’s accounting policies may also be necessary in some circumstances. For example, if, as part of the event or transaction, the entity is proposing to issue complex financial instruments for the first time, it may be necessary to consider whether the responsible party has adopted appropriate accounting policies to account for such financial instruments under its applicable financial reporting framework, and whether it has appropriately applied such policies in the process of compiling the pro forma financial information.

Disclosure of the Applicable Criteria (Ref: Para. 15(c), 28(h))

A18. The responsible party need not repeat in the explanatory notes accompanying the pro forma financial information any criteria that are prescribed by the relevant law or regulation, or promulgated by an authorized or recognized standard setting organization. Such criteria will be publicly available as part of the reporting regime and are therefore implicit to the process of compiling the pro forma financial information.

A19. Where the responsible party has developed any specific criteria, it is necessary that those criteria be disclosed so that users may obtain a proper understanding of the process of compilation.

Materiality (Ref: Para. 167, 31, 22)

A20. In an engagement to report on whether the process to compile pro forma financial information has been properly compiled applied, matters are material if their omission or misstatement could, individually or collectively, result in influencing the economic decisions of the intended users of the information. [LAST 2 SENTENCES MOVED TO PARA A20]

A21. Examples of matters that may cause the process of compilation pro forma financial information not to be properly compiled applied include:

- Use of an inappropriate source for the unadjusted financial information.
- Incorrect extraction of the unadjusted financial information from an appropriate source.
• In relation to adjustments, the misapplication of accounting policies; or the failure of the adjustments to be used consistent with the entity’s accounting policies; or the use of accounting policies that are not consistent with the entity’s financial reporting framework.

• Failure to make an adjustment required by the applicable criteria.

• Making an adjustment that is not in accordance with the applicable criteria.

• A mathematical or clerical mistake in the compilation process calculations within the pro forma financial information.

• Inadequate, incorrect or omitted disclosures.

A22. Materiality depends on the size and nature of the omission or misstatement inappropriate application of an element of the process, whether or not intentional, judged in the light of the surrounding circumstances. The size or nature of the matter, or a combination of both, could be the determining factor.

A23. Evaluating whether an omission or misstatement inappropriate application could result in influencing economic decisions of the intended users of the pro forma financial information involves consideration of the characteristics of those intended users. The intended users are assumed to:

(a) Have a reasonable knowledge of business and economic activities and accounting, and a willingness to study the pro forma financial information with reasonable diligence; and

(b) Make reasonable economic decisions on the basis of all the information contained in the prospectus, including the pro forma financial information and related explanatory notes.

The determination of materiality, therefore, takes into account how intended users with such characteristics could reasonably be expected to be influenced in making economic decisions.

Obtaining an Understanding of the Responsible Party’s Process to Compile the Pro Forma Financial Information and Other Engagement Circumstances (Ref: Para. 17)

Obtaining an Understanding of the Event or Transaction (Ref: Para. 20)

A248. The practitioner may obtain this understanding of the event or transaction through procedures such as the following:

• Inquiring of the responsible party and other entity personnel involved in the process to compile the pro forma financial information.

• Inquiring of other appropriate parties such as those charged with governance and the entity’s advisors.

• Inspecting—Reading relevant supporting documentation such as contracts or agreements.

• Reading minutes of meetings of those charged with governance.
Obtaining an Understanding of the Compilation Process and the Basis of Compilation (Ref: Para. 23)

A33. The practitioner may obtain an understanding of the compilation process and the basis of compilation through inquiry of the responsible party and reading the relevant analyses and other documents supporting the compilation.

The Process of Compilation (Ref: Para. 17(b))

A25. Matters on which the practitioner may obtain an understanding with regard to the process of compilation include, for example:

- The source of the unadjusted financial information used by the responsible party.
- How the responsible party has extracted the unadjusted financial information from the source.
- The steps taken by the responsible party to identify the appropriate pro forma adjustments, for example, how the responsible party has obtained acquiree financial information for purposes of the compilation.
- The nature and extent of oversight by the responsible party of other entity personnel involved in the process of compilation.
- The responsible party’s approach to identifying appropriate disclosures to support the pro forma financial information.

A34. In a business combination or divestment, areas that may give rise to complexity in the process to compile compilation of the pro forma financial information include allocations of income, overheads and assets and liabilities among or between the relevant businesses. Accordingly, it is important that the basis of compilation practitioner understand the responsible party’s approach and criteria for such allocations and that the explanatory notes accompanying the pro forma financial information disclose these matters explain the bases for such allocations.

A27. In contrast to financial statements prepared periodically by the responsible party, the compilation of the pro forma financial information is undertaken solely for purposes of the prospectus. Relevant controls in the latter case will therefore likely be much simpler and much more limited in scope than in the former. These may, for example, be limited to review by the responsible party of relevant analyses and worksheets prepared by entity personnel involved in the process to compile the pro forma financial information, and oversight by the responsible party of such personnel.

Obtaining an Understanding—Nature of the Entity and Any Acquirer or Divestee and Its Environment (Ref: Para. 17(c))

A28. A business that has been, or is to be, combined with the entity as part of a business combination—An acquiree may be an incorporated entity or a separately identifiable unincorporated operation within another entity such as a division, branch or line of business. A divestee may be an incorporated business such as a subsidiary or joint venture, or a separately identifiable unincorporated operation within the entity such as a division, branch or line of business.
A294. The practitioner may have all or part of the required understanding of the entity and any acquiree or divestee, and its— their respective environments, if the practitioner has audited or reviewed the entity’s most recent their financial information.

Relevant Industry, Legal and Regulatory, and Other External Factors (Ref: Para. 179(da))

A3025. Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments. Examples of matters the practitioner may consider include:

- The market and competition, including demand, capacity, and price competition.
- Common business practices within the industry.
- Cyclical or seasonal activity.
- Product technology relating to the entity’s products.

A3126. Relevant legal and regulatory factors include the legal and regulatory environment, which encompasses, among other matters, the applicable financial reporting framework in accordance with which the entity or, if applicable, the acquiree prepares the source of its unadjusted periodic financial information, and the legal and political environment. Examples of matters the practitioner may consider include:

- Industry-specific accounting practices.
- Legal and regulatory framework for a regulated industry.
- Legislation and regulation that significantly affect the entity’s or, if applicable, the acquiree’s or divestee’s operations, including direct supervisory activities.
- Taxation (corporate and other).
- Government policies currently affecting the conduct of the entity’s or, if applicable, the acquiree’s or divestee’s business, such as monetary, including foreign exchange controls, fiscal, financial incentives (for example, government aid programs), and tariffs or trade restrictions policies.
- Environmental requirements affecting the entity’s or acquiree’s or divestee’s industry and the entity’s business.

A327. Examples of other external factors affecting the entity and, if applicable, the acquiree or divestee that the practitioner may consider include the general economic conditions, interest rates and availability of financing, and inflation or currency revaluation.

Obtaining an understanding of an acquiree in a business combination (Ref: Para. 21)

A29— [MOVED TO PARA A25]

A30— The practitioner may have all or part of the required understanding of the acquiree if the practitioner has audited or reviewed the acquiree’s financial information.
Obtaining an understanding of a diveste in a divestment (Ref: Para. 22)

A32. The practitioner may have all or part of the required understanding of the diveste if the practitioner has audited or reviewed the entity’s financial information.

A31. [MOVED TO PARA A25]

Evaluating the Process Applied by the Responsible Party to Compile the Pro Forma Financial Information

Obtaining Evidence Regarding the Unadjusted and Any Target Financial Information

Appropriateness Source of the Unadjusted Financial Information (Ref: Para. 185(a)–24)

A335. As paragraph 14 indicates, a necessary criterion for applying the process to compile pro forma financial information is that an appropriate source be used for the unadjusted financial information, consistent with the purpose of the illustration. In determining whether the source used by the responsible party is appropriate, the practitioner is obtaining evidence to determine whether this criterion has been satisfied by the responsible party in applying the process, and not for the purpose of reporting on the source or on the pro forma financial information itself. Factors that may affect the appropriateness of the source of the unadjusted financial information include whether the source:

- Is permitted or required under specifically prescribed by the relevant law or regulation, or permitted by the relevant securities exchange with which the prospectus is to be filed.
- Is clearly identifiable.
- Is credible and not misleading.
- Represents a reasonable starting point for the compilation of the pro forma financial information in the context of the event or transaction, including whether it is at an appropriate date or covers an appropriate period.
- Is used as such under normal market custom and practice.

A346. Whether there is a published audit or review report on the source of the unadjusted financial information and whether such audit or review report was issued by the practitioner are is a factors in deciding whether the source is credible. The credibility of the source of the unadjusted financial information is one of the factors in determining whether the source is appropriate.

Audit or review report on the source of the unadjusted financial information published

A37. If a published audit or review report on the source has been issued by the practitioner, this will provide a sufficient basis for the practitioner to conclude that the source is credible.

A358. If a published audit or review report on the source has been issued by another practitioner, the need by the practitioner for an understanding of the entity and its accounting and financial reporting practices is not diminished. In the circumstances, the practitioner may need to consider whether the practitioner can acquire sufficient
knowledge of these matters to perform the procedures necessary to report under this ISAE may consider it appropriate to obtain an understanding of the other practitioner’s professional competence in determining whether there is a sufficient basis for accepting the source as being credible.

A39—It may be appropriate to obtain such an understanding if, for example, the practitioner has no previous knowledge of, or experience in dealing with, the other practitioner. This understanding may encompass, for example, whether the other practitioner possesses an understanding of auditing and other standards applicable to the audit or review of the source, industry-specific knowledge if applicable, and an understanding of the applicable financial reporting framework.

A40—The practitioner may obtain an understanding of the other practitioner by, for example:

- Discussing with the other practitioner matters relating to its professional competence, such as whether the other practitioner complies with the requirements of the IESBA Code.
- Inquiring of a reputable third party that has knowledge of the other practitioner.
- Inquiring of the professional body or bodies to which the other practitioner belongs, or the authorities by which the other practitioner is licensed.

Insufficient basis for accepting another practitioner’s work on the source of the unadjusted financial information, or no published audit or review report on the source

A3641. If the practitioner concludes that there is an insufficient basis for accepting another practitioner’s work on the source, or if there is no published audit or review report on the source, it may be necessary for the practitioner to perform procedures in relation to that source to be satisfied that it is credible. Relevant considerations in this case are set out in paragraphs A46-A48. Factors that may affect the nature and extent of these procedures the practitioner may perform include, for example:

- Whether an audit or review report on the source has nevertheless been issued by the practitioner or another practitioner even if it is not published.
- Whether the practitioner has previously audited or reviewed the entity’s historical financial information of the entity or, in a business combination, the financial information of the acquiree and the practitioner’s knowledge of the entity findings from such an engagement.
- Whether the entity’s financial information of the entity or, in a business combination, the financial information of the acquiree is subject to periodic review by the practitioner, for example, for purposes of meeting regulatory filing requirements.
- Whether the entity’s financial information of the entity or, in a business combination, the financial information of the acquiree is audited or reviewed by another practitioner in the practitioner’s office or another office of the practitioner’s firm.
- Whether there have been prior restatements of the financial information of the entity or, in a business combination, the financial information of the acquiree.
• Whether the responsible party has previously compiled pro forma financial information under the same applicable criteria.

Procedures when the practitioner decides not to accept another practitioner’s work on the source of the unadjusted or target financial information, or when there is no published audit or review report on the source

A437. In most cases, the entity’s financial statements information of the entity or, in the case of a business combination, that of the acquiree for the period immediately preceding prior period that of the source of the unadjusted financial information will have been audited or reviewed, even if the source itself is not. For example, the source may be interim financial statements not audited or reviewed whereas the entity’s financial statements for the immediately preceding fiscal year may have been audited. If this is the case but the source itself has not been audited or reviewed, procedures that the practitioner may perform, having regard to the factors in paragraph A4636, to be satisfied that the source is credible include:

• Inquiring of the responsible party, or, in the case of a business combination or divestment, the parties responsible for the source of the target financial information, about:
  o The process by which the source has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled.
  o Whether all transactions have been recorded.
  o Whether the source has been prepared in accordance with the entity’s accounting policies consistent with the historical financial statements of the entity or acquiree, as appropriate.
  o Whether there have been any changes to accounting policies from the immediately preceding prior period and, if so, how such changes have been dealt with.
  o Their responsible party’s assessment of the risk that the source may be materially misstated as a result of fraud.
  o The effect of changes in the entity’s business activities and operations of the reporting entity or acquiree or divestee, as appropriate.

• Comparing the source with the corresponding prior period financial information and, as appropriate, the immediately preceding annual or interim financial information, and discussing significant changes with the responsible party, or, in the case of an acquiree or divestee, the parties responsible for the source of the target financial information.

A438. In the rare circumstances where the entity’s financial information of the entity or, in the case of a business combination, that of the acquiree has never been audited or reviewed, the practitioner may likely need to perform additional procedures in addition to those the practitioner may perform pursuant to paragraph A47. These procedures that may include, for example:
• Obtaining the trial balance and determining whether it agrees with the general ledger and the source.

• Evaluating whether there could be material unrecorded liabilities. Examining a sample of reconciliations to corroborate the responsible party’s responses to the practitioner’s inquiries.

• Discussing with the responsible party or, in the case of a business combination or divestment, the parties responsible for the source of the target financial information regarding whether the recognition of income and expenses has taken place in the appropriate periods.

Obtaining Evidence Regarding the Pro Forma Adjustments

Procedures with respect to the Identification of appropriate pro forma adjustments (Ref: Para. 19(a)30)

A395. Informed by the practitioner’s understanding of the process of compilation and other engagement circumstances, the practitioner may obtain evidence regarding whether the responsible party has appropriately identified the pro forma adjustments through procedures such as:

• Inquiries of evaluating the reasonableness of the responsible party’s approach and others within the entity to identifying the appropriate pro forma adjustments, for example, the method used in identifying appropriate allocations of income, overheads, assets and liabilities among the relevant businesses.

• Inquiring of relevant parties within the acquiree in a business combination regarding their approach to extracting the acquiree financial information.

• Inspection evaluating specific aspects of the relevant contracts, agreements or other documents.

• Inquiring of the entity’s advisors regarding specific aspects of the event or transaction and related contracts and agreements that are relevant to the identification of appropriate adjustments.

• Recomputation of the pro forma adjustments evaluating relevant analyses and worksheets prepared by the responsible party and other entity personnel involved in the process of compilation.

• Obtaining evidence of the responsible party’s oversight of other entity personnel involved in the process of compilation.

• Analytical procedures.

Factual support for any target, acquiree or divestee financial information included in the pro forma adjustments (Ref: Para. 2519(b))

A402. Whether there is a published audit or review report on the source of the target financial information and whether such audit or review report was issued by the practitioner are factors in deciding whether the source is factually supportable. In determining whether the financial information of the acquiree or divestee is factually supportable, the
practitioner may refer to the guidance in paragraphs A34-A38 in relation to the financial information of the acquiree or divestee.

Audit or review report on the source of the target financial information published

A43. If a published audit or review report on the source has been issued by the practitioner, this will provide a sufficient basis for the practitioner to conclude that the source provides factual support for the target financial information.

A44. If a published audit or review report on the source has been issued by another practitioner, the practitioner may consider it appropriate to obtain an understanding of the other practitioner’s professional competence in determining whether there is a sufficient basis for accepting the source as providing factual support for the target financial information. The considerations set out in paragraphs A40 will be relevant in this case.

Insufficient basis for accepting another practitioner’s work on the source of the target financial information, or no published audit or review report on the source

A45. If the practitioner concludes that there is an insufficient basis for accepting another practitioner’s work on the source or if there is no published audit or review report on the source, it may be necessary for the practitioner to perform procedures in relation to that source to be satisfied that it provides factual support for the target financial information. Relevant considerations in this case are set out in paragraphs A46-A48.

Modified audit opinion or review conclusion, or emphasis of matter paragraph with respect to either the source of the unadjusted financial information or the source of the target acquiree or divestee financial information (Ref: Para. 2127(a)-(b))

A4149. Not all modified audit opinions, review conclusions or Emphasis of Matter paragraphs with respect to either the source of the unadjusted financial information or the source of the target acquiree or divestee financial information may necessarily have a consequence on the process of compiling the pro forma financial information. For example, if a qualified audit opinion with respect to the source of the unadjusted financial information relates to the non-disclosure of remuneration for those charged with governance as required by the applicable financial reporting framework, this may have no consequence on the process of compiling the pro forma income and net asset statements.

A4250. Further action that the practitioner may take includes, for example:

- Discussing the matter with the responsible party.
- Making a reference in the practitioner’s report to the modified audit opinion, review conclusion, or the Emphasis of Matter paragraph.
- Seeking advice from the practitioner’s legal counsel regarding the implications for the engagement.
- Withdrawing from the engagement.
Evaluating the Presentation of the Pro Forma Financial Information

Avoidance of Association with Misleading Financial Information (Ref: Para. 23(b))

A5243. The IESBA Code requires that a practitioner not be associated with information where the practitioner believes that the information:

(a) Contains a materially false or misleading statement;
(b) Contains statements or information furnished recklessly; or
(c) Omits or obscures information required to be included where such omission or obscurity would be misleading.12

Subsequent Events (Ref: Para. 38)

A544. Pro forma financial information is intended to illustrate the effect of an event or transaction on unadjusted financial information for a given period or at a given point in time. It does not represent the entity’s actual financial position, financial performance, or cash flows. For this reason, the applicable criteria ordinarily do not require the responsible party to adjust the unadjusted and any target financial information for subsequent events after the date on which the source of such financial information was reported upon. Accordingly, as the practitioner is not reporting on the source of the unadjusted financial information, there is also no requirement for the practitioner to obtain evidence and report on the effects of events that occurred after this date perform procedures to identify events after the date of that source that require adjustment of, or disclosure in, such source. Nevertheless, evaluating the presentation of the pro forma financial information involves a consideration of whether the practitioner has become aware, through performing the procedures under this ISAE or otherwise, of any significant events subsequent to the date of the source of the unadjusted financial information that may require reference to, or disclosure in, the explanatory notes to the pro forma financial information to avoid the latter being misleading. For example, after the date of the source of the unadjusted financial information, the entity may have entered into a capital transaction involving the conversion of its convertible debt into equity, non-disclosure of which could result in the pro forma financial information being misleading.

Disclosures Accompanying the Pro Forma Financial Information (Ref: Para. 14(c), 23(c))

A45. Appropriate disclosures include matters such as:

[BULLETS BELOW FROM PARA 14]

• (i)——Its nature and purpose of the pro forma financial information, including the nature of the event or transaction; (Ref. Para. A20)
• (ii)——The source of the unadjusted financial information, and whether or not an audit or review report on such a source has been published, and, if so, where such a report may be found, whether in the prospectus or otherwise;

12 The IESBA Code, paragraph 110.2.
• (iii) The basis of compilation;
• (iv) The pro forma adjustments, including a clear description and explanation of each adjustment; (v) This includes, in the case of either a business combination or a divestment, the source of the target acquiree or divestee financial information, the source of such information and whether or not an audit or review report on the such a source has been published; and
• A reference to, or description of, the applicable criteria in accordance with which the process to compile the pro forma financial information has been applied; and
• (vi) The fact-A statement to the effect that the pro forma financial information has been compiled for illustrative purposes only and that, because of its nature, it does not represent the entity’s actual financial position, financial performance, or cash flows.

Material Inconsistency with Other Information (Ref: Para. 28, 32(b), 3324)

Material inconsistency or apparent misstatement of fact (Ref: Para. 34)

A5346. Further appropriate action that the practitioner may take if the responsible party refuses to revise the pro forma financial information or the other information as appropriate include, for example:
• Describing the material inconsistency in the practitioner’s report.
• Modifying the practitioner’s opinion.
• Withdrawing from the engagement where this is possible under the relevant law or regulation.

Written Representations (Ref: Para. 25(a))

A47. Where the circumstances involve types of transaction that require the responsible party to use accounting policies for the pro forma adjustments that the entity has not previously had to articulate because it had no relevant transactions, the practitioner may request the responsible party to expand the written representation to include confirmation that such accounting policies constitute the entity’s adopted policies for such types of transaction.

Forming the Opinion

Modified Opinion (Ref: Para. 26)

A48. In most jurisdictions, the relevant law or regulation will not permit publication of a prospectus that contains a modified opinion with regard to the process to compile the pro forma financial information. In the rare circumstances where this is permitted and the practitioner determines that a modified opinion is appropriate, the requirements and guidance in ISAE 3000 regarding modified opinions apply.
Assurance on Further Matters Required by the Relevant Law or Regulation (Ref: Para. §§27)

A4955. The relevant law or regulation may, for example, require the practitioner to express an opinion about whether the basis of compilation on which the responsible party has compiled the pro forma financial information is consistent with the entity’s accounting policies. Compliance with the requirement in paragraph 30(d)19(b) of this ISAE, which includes determining whether the pro forma adjustments are consistent with the entity’s accounting policies, provides a basis for expressing such an opinion—and, accordingly, the practitioner need not perform additional procedures in such a case.

A506. Where the relevant law or regulation requires the practitioner to express an opinion on other matters related to the proper compilation of process to compile the pro forma financial information, this may require the practitioner to perform additional procedures. The nature and extent of such additional procedures will vary with the nature of these other matters.

Inclusion of Legal or Regulatory Statements of the Practitioner’s Responsibility for in the Practitioner’s Report

A517. The relevant law or regulation may require the practitioner to include certain statements in the practitioner’s report, such as an explicit statement of the practitioner’s responsibility for the practitioner’s report as distinct from the description of the practitioner’s responsibilities in the practitioner’s report required by this ISAE. The inclusion of such additional legal or regulatory statements in the practitioner’s report is not incompatible with the requirements of this ISAE.

Preparing the Assurance Report

Content of the Practitioner’s Report

Title (Ref: Para. 2856(a))

A528. A title indicating that the report is the report of an independent practitioner, for example, “Independent Practitioner’s Assurance Report on the Proper Compilation of Process to Compile Pro Forma Financial Information,” affirms that the practitioner has met all of the relevant ethical requirements regarding independence as required by ISAE 3000. This distinguishes the report of the independent practitioner from reports issued by others.

Addressee(s) (Ref: Para. 2856(b))

A529. The addressee(s) of the report may include, for example, those charged with governance of the entity or the responsible party. The relevant law or regulation may specify the addressee(s) of the report. Alternatively, the practitioner may agree with the entity who the addressee(s) will be as part of the terms of the engagement.

13 ISAE 3000, paragraph 4.
Introductory Paragraph (Ref: Para. 2866(c))

A5460. As the pro forma financial information will be included in a prospectus that contains other information, the practitioner may consider, if the form of presentation allows, including a reference that identifies the section where the pro forma financial information is presented. This helps readers identify the pro forma financial information to which the practitioner’s report relates.

Wording of Opinion (Ref: Para. 13(c), 28(h))

A55. Because describing pro forma financial information as being properly compiled (see paragraph 5) means that the responsible party has, in all material respects, applied the process of compilation in accordance with the applicable criteria, the practitioner may express the opinion in terms of either:

- Whether the process to compile the pro forma financial information has, in all material respects, been applied in accordance with the applicable criteria; or

- Whether the pro forma financial information has been properly compiled on the basis stated.

A56. The relevant law or regulation in some jurisdictions may prescribe the wording of the practitioner’s opinion in terms other than those specified in paragraph 28(h). Where this is the case, it may be necessary for the practitioner to exercise judgment to determine whether performing the procedures set out in this ISAE would enable the practitioner to express the opinion in the prescribed wording, or whether further procedures would be necessary.

A57. Where the practitioner concludes that performing the procedures set out in this ISAE would be sufficient to enable the practitioner to express the opinion in the prescribed wording, it may be appropriate to regard this wording as being generally equivalent to the wording of the opinion in the terms specified in this ISAE.

Illustrative Reports (Ref: Para. 28)

Unmodified opinion (Ref: Para. 56)

A6458. A practitioner’s report with an unmodified opinion is set out in Appendix 1.

Qualified opinion (Ref: Para. 46)

A62. A practitioner’s report with a qualified opinion is set out in Appendix 2.
Illustration of a Practitioner’s Report with an Unmodified Opinion

Independent Practitioner’s Assurance Report on the Proper Compilation of Process to Compile Pro Forma Financial Information

To: [Appropriate addressee(s)]

We have completed our assurance engagement to report on the proper compilation of process applied by ABC Company (the company) to compile the pro forma financial information dated [date], consisting of [the pro forma net asset statement as at [date]], [the pro forma income statement for the period ended [date]] [and the pro forma cash flow statement for the period ended [date]] and pro forma net asset statement prepared by ABC Company (the company) [as set out on pages xx-xx of the prospectus issued by the company]. The basis of compilation applicable criteria in accordance with which this process has been applied are [specified in Securities Regulation XX] described in [Note X].

The pro forma financial information has been compiled by management for illustrative purposes only to illustrate the impact of [event or transaction] set out in [Note Y] might have affected on the company’s financial position as at that date [and its financial performance and cash flows] of the company for the period then ended [date] [and its financial position as at that date]. As part of this process, information about the company’s performance, [and its] financial position performance [and cash flows] has been extracted from the company’s financial statements [for the period ended [date]], on which [an audit]/[a review report]/[no audit or review report] has been published, as indicated in Note W. Because of its nature, the pro forma financial information does not represent the company’s actual financial position, [financial performance], [or cash flows].

Management’s Responsibility for the Pro Forma Financial Information

Management of ABC Company is responsible for properly compiling and applying the process to compile the pro forma financial information on the basis of compilation in accordance with the applicable criteria [specified in Securities Regulation XX]/[set out in [Note X]].

Practitioner’s Responsibilities

Our responsibility is to express an opinion [as required by Securities Regulation XX],] about whether management’s process to compile the pro forma financial information has been properly compiled on the basis stated in accordance with the applicable criteria. We are not responsible for updating any reports or opinions on any financial information used in the compilation of the pro forma financial information. In addition, we have not performed an audit or review of the pro forma financial information and, accordingly, we do not express an opinion on the pro forma financial information.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, “Assurance Reports on the Proper Compilation of Process to Compile Pro Forma Financial Information Included in a Prospectus,” issued by the
International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether the responsible party has applied the process to compile the pro forma financial information has been properly compiled on the basis stated in accordance with the applicable criteria.

Our procedures were directed at the process by which management has compiled the pro forma financial information. The purpose of our procedures with regard to that process was to enable us to express an opinion as to whether the pro forma financial information has been properly compiled by management on the basis stated.

Our procedures included making inquiries of management regarding the process management has applied to compile the pro forma financial information; evaluating whether management has used an appropriate source of the unadjusted financial information used by management is appropriate for the purposes of compiling the pro forma financial information; evaluating the checking whether management has appropriately extracted the unadjusted financial information from the source documents; evaluating whether management has compiled the pro forma financial information has been compiled on the basis consistent with the accounting policies consistent with those used by the company and with under the company’s financial reporting framework; considering the management’s evidence supporting the pro forma adjustments; recomputing the determining whether the calculations within of the pro forma financial information are arithmetically accurate; making inquiries of management regarding the pro forma financial information; and evaluating the overall presentation and disclosure of the pro forma financial information and related explanatory notes.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We have not performed an audit or review of the pro forma financial information and, accordingly, do not express an opinion on the pro forma financial information.

Opinion

In our opinion, [the process to compile the pro forma financial information has, in all material respects, been properly compiled on the basis stated applied in accordance with the applicable criteria] / [the pro forma financial information has been properly compiled on the basis stated].

[Practitioner’s signature]

[Date of practitioner’s report]

[Practitioner’s address]
Appendix 2
(Ref: Para. A62)

Illustration of a Practitioner’s Report with a Qualified Opinion—Material Misstatement Arising from an Adjustment

Independent Practitioner’s Assurance Report on the Proper Compilation of Pro Forma Financial Information

To: [Appropriate addressee(s)]
[Same as Appendix 1]

Management’s Responsibility for the Pro Forma Financial Information
[Same as Appendix 1]

Practitioner’s Responsibilities
[Our responsibility is to express an opinion …
We conducted our engagement …
Our procedures were directed at …
Our procedures included …]
We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for Qualified Opinion
Management has included in the pro forma income statement of ABC Company an adjustment for an amount of xxx related to reorganization costs that are anticipated from the closure of two manufacturing facilities in Country X, conditional upon the completion of the acquisition of XYZ Company as described in Note X. Because this adjustment depends on an action to be taken in the future, it does not meet the criteria described in Note Y for the compilation of the pro forma financial information. These criteria require that the pro forma adjustments be directly attributable to the acquisition of XYZ Company.

Qualified Opinion
In our opinion, except for the consequences of the matter described in the Basis for Qualified Opinion paragraph, the pro forma financial information has been properly compiled on the basis stated.

[Practitioner’s signature]
[Date of practitioner’s report]
[Practitioner’s address]