Assurance Reports on the 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\(^1\) (for purposes of this ISAE referred to as a “practitioner”\(^2\)) to report on the process to compile 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”) 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\(^3\), 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.\(^4\)

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.\(^5\)

Purpose of Pro Forma Financial Information Included in a Prospectus

4. The purpose of pro forma financial information included in a prospectus is to illustrate the impact of a significant event or transaction on 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 represent the entity’s actual financial position, financial performance, or cash flows. (Ref: Para. A1-A2)

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\(^1\) The *Code of Ethics for Professional Accountants* developed by the International Ethics Standards Board for Accountants 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.”

\(^4\) International Standard on Related Services (ISRS) 4410, “Engagements to Compile Financial Statements.”

\(^5\) ISAE 3400, “The Examination of Prospective Financial information.”
Nature of an Assurance Engagement to Report on the Process to Compile Pro Forma Financial Information

5. The process of compiling pro forma financial information involves the responsible party gathering, classifying and summarizing relevant financial information. Steps involved in this process include:
   • Identifying the source of the unadjusted financial information to be used in the compilation of the pro forma financial information; (Ref: Para. A3)
   • Extracting the unadjusted financial information from the relevant source; (Ref: Para. A4)
   • Making pro forma adjustments to the unadjusted financial information for the purpose for which the pro forma financial information is presented; and
   • Presenting the resulting pro forma financial information in accordance with the applicable criteria, including 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 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 process to compile 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.

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6 ISAE 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information.”
7 ISAE 3000, paragraphs 4 and 6.
Effective Date
9. This ISAE is effective for assurance reports dated on or after [date].

Objectives
10. 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 is in accordance with the applicable criteria; and
   (b) To report in accordance with the practitioner’s findings.

Definitions
11. For purposes of this ISAE, the following terms have the meanings attributed below:
   (a) Applicable criteria – The criteria in accordance with which the process to compile the pro forma financial information is to be applied. (Ref: Para. A5-A6)
   (b) Pro forma adjustments – Adjustments made to unadjusted financial information, including:
       (i) Adjustments to illustrate the impact of a significant event or transaction (“event” or “transaction”); and
       (ii) Adjustments necessary for the pro forma financial information to be compiled on a basis consistent with the accounting policies of the reporting entity (“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 (“acquiree”), or a business that has been, or is to be, divested (“divestee”), to the extent that such information is used in the compilation of the pro forma financial information (“acquiree or divestee financial information”).
   (c) Prospectus – 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.
   (d) Published financial information – Financial information of the entity or of an acquiree or a divestee that is made available publicly.
   (e) Published audit or review report – an audit or review report that is made available publicly.
   (f) Unadjusted financial information – Financial information of the entity to which pro forma adjustments are applied by the responsible party. (Ref: Para. A8)

Requirements
ISAE 3000
12. 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

13. Before agreeing to accept an engagement to report on the process to compile pro forma financial information included in a prospectus, the practitioner shall:

(a) Determine that the practitioner has the capabilities and competence to perform the engagement; (Ref: Para. A9)

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

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

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

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

(d) Obtain the agreement of the responsible party that it acknowledges and understands its responsibility for: (Ref: Para. A11-A12)

(i) Providing a reference to the applicable criteria if these are publicly available, or otherwise disclosing them and who developed them;

(ii) Making appropriate pro forma adjustments to illustrate the impact of the event or transaction;

(iii) Applying the process to compile the pro forma financial information 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 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. 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. Access to appropriate individuals within acquirees in a business combination.
Planning and Performing the Engagement

Assessing the Suitability of the Applicable Criteria

14. As part of assessing whether the applicable criteria are suitable, as required by ISAE 3000, the practitioner shall determine that they encompass, at a minimum, that: (Ref: Para. A13)

(a) The unadjusted financial information be extracted from an appropriate source;
(b) The pro forma adjustments be:
   (i) Directly attributable to the event or transaction; (Ref: Para. A14)
   (ii) Factually supportable; and (Ref: Para. A8, A15)
   (iii) Consistent with the entity’s accounting policies under its applicable financial reporting framework; and (Ref: Para. A16-A17)
(c) Appropriate presentation be made and disclosures be provided to enable the intended users to understand the pro forma financial information. (Ref: Para. A1-A2, A45)

15. 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; and
(c) Adequately disclosed if not publicly available. (Ref: Para. A18)

Materiality

16. When planning and performing the engagement, the practitioner shall consider materiality with respect to the process to compile 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

17. The practitioner shall obtain an understanding of: (Ref: Para. A24)

(a) The event or transaction in respect of which the pro forma financial information is being compiled;
(b) The process applied by the responsible party to compile the pro forma financial information; (Ref: Para. A25-A27)
(c) The nature of the entity and any acquiree or divestee, including: (Ref: Para. A28-A29)
   (i) Their operations;
   (ii) Their assets and liabilities; and
   (iii) The way they are structured and how they are financed;

8 ISAE 3000, paragraph 19.
(d) Relevant industry, legal and regulatory, and other external factors pertaining to the entity and any acquiree or divestee; and (Ref: Para. A30-A32)

(e) The applicable financial reporting framework and the accounting and financial reporting practices of the entity and of any acquiree or divestee, including their selection and application of accounting policies.

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

18. The practitioner shall determine whether the responsible party has:

(a) Used an appropriate source of the unadjusted financial information; and (Ref: Para. A33-A38)

(b) Appropriately extracted the unadjusted financial information from the source. (Ref: Para. A4)

19. The practitioner shall determine whether:

(a) The responsible party has appropriately identified the pro forma adjustments; and (Ref: Para. A39)

(b) The pro forma adjustments are in accordance with the applicable criteria. (Ref: Para. A5-A6, A14-A17, A40)

20. The practitioner shall determine whether the calculations within the pro forma financial information are arithmetically accurate.

21. 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 acquiree or divestee financial information, or where a report containing an Emphasis of Matter paragraph has been issued with respect to such source, and the relevant law or regulation does not prohibit the use of such a source, the practitioner shall evaluate: (Ref: Para. A41-A42)

(a) The potential consequence on the process of compiling the pro forma financial information;

(b) What further action to take; and

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

22. If, on the basis of the procedures performed, the practitioner concludes that the responsible party has: (Ref: Para. A20-A23)

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

(b) Omitted a pro forma adjustment that should be included, or otherwise inappropriately applied a pro forma adjustment,
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 determine the implications for the practitioner’s report.

**Evaluating the Presentation of the Pro Forma Financial Information**

23. The practitioner shall evaluate whether the pro forma financial information is appropriately presented 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 explanatory notes illustrate the impact of the event or transaction in a manner that is not misleading; and (Ref: Para. A43-A44)

(c) Whether appropriate disclosures are provided with the pro forma financial information to enable the intended users to understand the information conveyed. (Ref: Para. A45)

24. The practitioner shall read the other information included in the prospectus containing the pro forma financial information to identify material inconsistencies, if any, with the pro forma financial information. If, on reading the other information, the practitioner identifies a material inconsistency, 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. A46)

**Written Representations**

25. 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 illustrate the impact of the event or transaction at the date or for the period of the illustration; (Ref: Para. A47)

(b) The omission of any pro forma adjustments 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 reflect all the significant effects of the event or transaction, and in a way that does not result in the pro forma financial information being misleading.

**Forming the Opinion**

26. 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 applied in accordance with the applicable criteria. (Ref: Para. A5-A6, A48)
Assurance on Further Matters Required by the Relevant Law or Regulation

27. If the relevant law or regulation requires the practitioner to express an opinion on matters in addition to whether the process to compile the pro forma financial information 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. A49-A51)

Preparing the Assurance Report

28. The practitioner’s report shall include the following basic elements: (Ref: Para. A58)

(a) A title that clearly indicates that the report is an independent assurance report. (Ref: Para. A52)

(b) An addressee(s), as agreed in the terms of engagement. (Ref: Para. A53)

(c) An introductory paragraph that identifies: (Ref: Para. A54)

   (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.

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

   (iv) A reference to the 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 description of the responsible party’s responsibilities, including a statement that the responsible party is responsible for 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 in accordance with the applicable criteria;

   (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) 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 Process to Compile Pro Forma Financial Information Included in a Prospectus,” 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 in accordance with the applicable criteria.
(g) A summary of the practitioner’s procedures.

(h) The practitioner’s opinion on the proper application of the process of compilation, in terms of either: (Ref: Para. A18-A19, A55-A57)
   (i) Whether the process to compile the pro forma financial information has, in all material respects, been 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.

(j) The date of the report.

(k) 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 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 related explanatory notes that ordinarily disclose the matters set out in paragraph A45.

A2. Different presentations 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 impact 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 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. In such cases, the nature of the pro forma financial information may be 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)

A3. The source of the unadjusted financial information will ordinarily be published financial information such as annual or interim financial statements.
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. 11(a), 19(b), 26)

A5. Applicable criteria specify how the pro forma financial information is to be put together and presented. They may be established either by an authorized or recognized standard setting organization or by the relevant law or regulation. 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 the benchmarks set out in paragraph 14.

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.

Unadjusted Financial Information (Ref: Para. 11(f), 14(b)(ii))

A8. 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, an engagement to be covered by this ISAE requires the relevant pro forma adjustments to be capable of being factually supported. 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. 13(a))

A9. The IESBA Code 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:

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9 IESBA Code, paragraphs 130.1 and 130.3.
• 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.

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.

The Responsible Party’s Responsibilities (Ref: Para. 13(d))

A11. An engagement in accordance with this ISAE is conducted on the premise that the responsible party has acknowledged and understands that it has the responsibilities set out in paragraph 13(d). 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 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; 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 3000.10

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 13(d).

Planning and Performing the Engagement

Assessing the Suitability of the Applicable Criteria (Ref: Para. 14)

A13. Because pro forma financial information, by its nature, is not general purpose financial statements, it is important that the criteria applied in compiling the pro forma financial information are appropriate and transparent.

10 ISAE 3000, paragraph 10.
Directly Attributable Adjustments (Ref: Para. 14(b)(i), 19(b))

A14. 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. 14(b)(ii), 19(b))

A15. 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

Adjustments Consistent with the Entity’s Accounting Policies (Ref: Para. 14(b)(iii), 19(b))

A16. For the pro forma financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the entity’s accounting policies under its applicable financial reporting framework. In the context of a business combination, for example, the process to compile the pro forma financial information involves consideration of such matters as:

- Whether differences exist between the acquiree’s accounting policies and those of the entity; and
- Whether accounting policies for specific types of transaction in the acquiree’s financial information with which the entity has not previously had to deal are policies that the entity 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. 16, 22)

A20. In an engagement to report on whether the process to compile pro forma financial
information has been properly applied, matters are material if their omission or
inappropriate application could, individually or collectively, result in influencing the
economic decisions of the intended users of the information.

A21. Examples of matters that may cause the process of compilation not to be properly 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 consistent with the entity’s accounting policies.
- 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 calculations within the pro forma financial
  information.
- Inadequate, incorrect or omitted disclosures.

A22. Materiality depends on the size and nature of the omission or 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 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)

A24. The practitioner may obtain this understanding through procedures such as:

- 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.
- Reading relevant supporting documentation such as contracts or agreements.
- Reading minutes of meetings of those charged with governance.

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.

A26. In a business combination or divestment, areas that may give rise to complexity in the process to compile 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 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.

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.

Nature of the Entity and Any Acquiree or Divestee (Ref: Para. 17(c))

A28. 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.

A29. The practitioner may have all or part of the required understanding of the entity and any acquiree or divestee, and their respective environments, if the practitioner has audited or reviewed their financial information.

Relevant Industry, Legal and Regulatory, and Other External Factors (Ref: Para. 17(d))

A30. 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.

A31. 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 its 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).
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- 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 business.

A32. 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.

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

Source of the Unadjusted Financial Information (Ref: Para. 18(a))

A33. 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 include whether the source:

- Is permitted or 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.

- 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.

A34. Whether there is a published audit or review report on the source of the unadjusted financial information is a factor 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.

A35. 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.
A36. 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. Factors that may affect the nature and extent of these procedures include, for example:

- Whether an audit or review report on the source has nevertheless been issued by the practitioner or another practitioner even if not published.
- Whether the practitioner has previously audited or reviewed the entity’s historical financial information, and the practitioner’s knowledge of the entity from such engagement.
- Whether the entity’s financial information is subject to periodic review by the practitioner, for example, for purposes of meeting regulatory filing requirements.
- Whether the entity’s financial information is audited or reviewed by another practitioner in the practitioner’s office or another office of the practitioner’s firm.

A37. In most cases, the entity’s financial statements for the period immediately preceding 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. In such a case, procedures that the practitioner may perform, having regard to the factors in paragraph A36, to be satisfied that the source is credible include:

- Inquiring of the responsible party about:
  - 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.
  - Whether all transactions have been recorded.
  - Whether the source has been prepared in accordance with the entity’s accounting policies.
  - Whether there have been any changes in accounting policies from the immediately preceding prior period and, if so, how such changes have been dealt with.
  - The responsible party’s assessment of the risk that the source may be materially misstated as a result of fraud.
  - The effect of changes in the entity’s business activities and operations.
- 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.

A38. In the rare circumstances where the entity’s financial information has never been audited or reviewed, the practitioner may need to perform additional procedures that may include, for example:

- Obtaining the trial balance and determining whether it agrees with the general ledger and the source.
• Examining a sample of reconciliations to corroborate the responsible party’s responses to the practitioner’s inquiries.
• Discussing with the responsible party regarding whether the recognition of income and expenses has taken place in the appropriate periods.

Pro Forma Adjustments

Identification of appropriate pro forma adjustments (Ref: Para. 19(a))

A39. 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:

• Evaluating the reasonableness of the responsible party’s approach 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 an acquiree regarding their approach to extracting the acquiree financial information.
• 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.
• 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 acquiree or divestee financial information included in the pro forma adjustments (Ref: Para. 19(b))

A40. 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.

Modified Audit Opinion or Review Conclusion, or Emphasis of Matter Paragraph (Ref: Para. 21)

A41. 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 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 pro forma net asset and income statements.

A42. 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))

A43. 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.11

A44. As the practitioner is not reporting on the source of the unadjusted financial information, there is no requirement for the practitioner to 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:

- The nature and purpose of the pro forma financial information, including the nature of the event or transaction;

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11 The IESBA Code, paragraph 110.2.
• The source of the unadjusted financial information, and whether or not an audit or review report on such a source has been published;

• The pro forma adjustments, including a description and explanation of each adjustment. This includes, in the case of acquiree or divestee financial information, the source of such information and whether or not an audit or review report on such a source has been published;

• 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

• 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. 24)

A46. 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)

A49. The relevant law or regulation may, for example, require the practitioner to express an opinion about whether the basis 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 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. Accordingly, the practitioner need not perform additional procedures in such a case.

A50. Where the relevant law or regulation requires the practitioner to express an opinion on other matters related to the 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.

Statement of the Practitioner’s Responsibility for the Report

A51. The relevant law or regulation may require the practitioner to include in the practitioner’s report 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 an additional legal or regulatory statement in the practitioner’s report is not incompatible with the requirements of this ISAE.

Preparing the Assurance Report

Title (Ref: Para. 28(a))

A52. A title indicating that the report is the report of an independent practitioner, for example, “Independent Practitioner’s Assurance Report on the 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. 28(b))

A53. 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.

Introductory Paragraph (Ref: Para. 28(c))

A54. 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:

12 ISAE 3000, paragraph 4.
• 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 Report (Ref: Para. 28)

A58. A practitioner’s report with an unmodified opinion is set out in Appendix 1.
Illustration of a Practitioner’s Report with an Unmodified Opinion

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

To: [Appropriate addressee(s)]

We have completed our assurance engagement to report on the process applied by ABC Company (the company) to compile the pro forma financial information, 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]] [as set out on pages xx-xx of the prospectus issued by the company]. The 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 the [event or transaction] set out in [Note Y] on the [company’s financial position as at that date] [and its financial performance [and cash flows] for the period then ended]. As part of this process, information about the company’s [financial position], [financial 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. 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 applying the process to compile the pro forma financial information 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 applied 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 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 in accordance with the applicable criteria.

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 for the purpose of compiling the pro forma financial information; checking whether management has appropriately extracted the unadjusted financial information from the source documents; evaluating whether management has compiled the pro forma financial information on a basis consistent with the accounting policies used by the company under the company’s financial reporting framework; considering management’s evidence supporting the pro forma adjustments; determining whether the calculations within the pro forma financial information are arithmetically accurate; 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.

Opinion

In our opinion, [the process to compile the pro forma financial information has, in all material respects, been 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]