

Assurance Reports on the Proper Compilation of Pro Forma Financial Information Included in Prospectuses –

Draft International Standard on Assurance Engagements 34~~20XX~~ [MARKED FROM SEPT 2009]

(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 ~~the responsibilities of assurance engagements undertaken by~~ a professional accountant in public practice¹ (for purposes of this ISAE referred to as a “practitioner”)² ~~when performing a reasonable assurance engagement~~ to report publicly on the proper compilation of pro forma financial information included in a prospectus. This type of engagement is often 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. (Ref: Para. A1-A3)
2. This ISAE does not deal with non-assurance engagements to compile financial statements, which are dealt with in ISRS 4410.³
3. The International Framework for Assurance Engagements (the Assurance Framework) states that an assurance engagement may be either a “reasonable assurance” engagement or a “limited assurance” engagement; that an assurance engagement may be either an “assertion-based” engagement or a “direct reporting” engagement; and that the assurance conclusion for an assertion-based engagement can be worded either in terms of the responsible party’s⁴ assertion or directly in terms of the subject matter and the criteria.⁵ This ISAE only deals with assertion-based engagements that convey reasonable assurance, with the assurance conclusion worded directly in terms of the subject matter and the criteria. (Ref: Para. A4)

Assertion-Based and Direct Reporting Engagements

- ~~3. The International Framework for Assurance Engagements (the Assurance Framework) notes that an assurance engagement may be either an “assertion-based” engagement or a “direct reporting” engagement, and that the assurance conclusion for an assertion-based engagement can be worded either in terms of the responsible party’s assertion or directly in terms of the subject matter and the criteria.⁶ This ISAE covers assertion-based engagements with an assurance conclusion worded in terms of the subject matter information and the criteria.⁷ (Ref: Para. A4)~~

¹ The International Federation of Accountants’ *Code of Ethics for Professional Accountants* (IFAC 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 ~~Often~~In many jurisdictions, the practitioner will be the auditor of the reporting entity.

³ International Standard on Related Services (ISRS) 4410, “Engagements to Compile Financial Statements.”

⁴ The Assurance Framework, paragraphs 25-26, describes the meaning of the term “responsible party.”

⁵ Assurance Framework, paragraphs 10, 11 and 57.

⁶ Assurance Framework, paragraphs 10 and 57.

⁷ Paragraphs 10(a)(iii) and 50(i) of this ISAE.

Relationship with Other Professional Pronouncements

4. The performance of assurance engagements other than audits or reviews of historical financial information requires the practitioner to comply with ISAE 3000.⁸ 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 Assurance Framework, which defines and describes the elements and objectives of an assurance engagement, provides context for understanding this ISAE and ISAE 3000.
5. Compliance with ISAE 3000 requires, among other things, that the practitioner comply with the independence and other requirements of the IFAC Code, and implement quality control procedures that are applicable to the individual engagement.⁹

Effective Date

6. This ISAE is effective for assurance reports dated on or after [date].⁺⁰

Objectives

7. The objectives of the practitioner are:
 - (a) To obtain reasonable assurance ~~form an opinion~~ about whether the pro forma financial information has been properly compiled on the basis stated; and
 - (b) To ~~express clearly that opinion through a written report that also describes the basis for that opinion~~ in accordance with the practitioner's findings.

Definitions

8. 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 the pro forma financial information for inclusion in the prospectus. (Ref: Para. A10-A12)
 - (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 ~~underlying~~ event or transaction⁺⁺ ~~in accordance with the applicable criteria~~ the significant effects of which are being illustrated. (Ref: Para. A5)
 - (c) Pro forma adjustments – Any adjustments to unadjusted financial information that are necessary to compile the pro forma financial information, including:

⁸ ISAE 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information.”

⁹ ISAE 3000, paragraph 4.

⁺⁰ ~~The wording of this paragraph differs from that used in proposed ISAE 3402, Assurance Reports on Controls at a Service Organization, and proposed ISAE 3410, Assurance on a Greenhouse Gas Statement. Consideration of this wording is subject to final discussion of the corresponding paragraphs in proposed ISAEs 3402 and 3410.~~

⁺⁺ ~~See paragraph 89(d).~~

- (i) Adjustments to reflect the significant effects of the ~~underlying~~ event or transaction; and
- (ii) Adjustments necessary for the basis of compilation to be consistent with the accounting policies of the reporting entity (hereinafter referred to as “entity”).

Pro forma adjustments include the relevant financial information of an acquired business in a business combination, or a divested business in a divestment, to the extent that such information is used in the compilation of the pro forma financial information (“target financial information”).

- (d) Pro forma financial information – Financial information shown together with adjustments to illustrate the significant effects of an event or transaction (~~“underlying event or transaction”~~) on unadjusted financial information of the entity assuming that the event or transaction had occurred at ~~the~~ an earlier date used for the illustration. Pro forma financial information includes related explanatory notes. (Ref: Para. A6)
- (e) Proper compilation – The ~~process making~~ of: (Ref: Para. A3)
 - (i) Identifying an appropriate source of the unadjusted financial information and appropriately extracting the information from that source;
 - (ii) ~~Making A~~ appropriate pro forma adjustments to the unadjusted financial information on the basis of consistent accounting policies to unadjusted financial information that has been accurately extracted from an appropriate source or sources to reflect the significant effects of an underlying event or transaction on the unadjusted financial information; and
 - (iii) Appropriately presenting ~~Appropriate disclosures to enable intended users to understand~~ 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.

- (f) Prospectus – Unless specifically defined in law or regulation, Aa 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.
- (g) Target financial information – See paragraph 8(c).
- (hg) 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. A7)

Requirements

ISAE 3000

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

Engagement Acceptance

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

- (a) Assess:
- (i) Whether the practitioner has the capabilities and competence to perform the engagement; (Ref: Para. A~~87~~)
 - (ii) The required form of reporting to determine whether the practitioner will likely be able to report in the required form under this ISAE; (Ref: Para. A~~98~~)
 - (iii) Whether the applicable criteria are likely to be suitable; ~~and~~ (Ref: Para. A~~109~~-A~~120~~)
 - (iv) Whether it is unlikely that the pro forma financial information will ~~not likely~~ be misleading for the purpose for which it is intended; and
 - (v) Whether, on the basis of a preliminary knowledge of the engagement circumstances and discussion with the responsible party, the practitioner will likely be able to perform the procedures required by this ISAE;
- (b) Determine that the responsible party will not impose any limitation on the scope of the engagement; ~~and~~
- (c) 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. A~~134~~-A~~142~~)
- (i) Disclosing the applicable criteria and who developed them;
 - (ii) Making judgments that provide a reasonable basis for reflecting the significant effects of the ~~underlying~~ event or transaction in the pro forma financial information;
 - (iii) Properly compiling the pro forma financial information on the stated basis of compilation and in accordance with the applicable criteria; and
 - ~~(iv) Such internal control as the responsible party determines is necessary to enable it to properly compile the pro forma financial information; and~~
 - (iv) Providing the practitioner with:

- a. Access to all information, such as records, documentation and other material, matters that are relevant to the compilation and presentation of the pro forma financial information; (Ref: Para. A153)
- b. Additional information that the practitioner may request from the responsible party for the purpose of the engagement; ~~and~~
- c. Unrestricted access to those within the entity from whom the practitioner determines it necessary to obtain evidence;:- and
- e.d. Where applicable, unrestricted access to individuals within acquired businesses in a business combination.

Planning and Performing the Engagement

Assessing the Suitability of the Applicable Criteria

11. As part of assessing whether the applicable criteria are suitable, as required by ISAE 3000,¹² the practitioner shall determine whether they encompass, at a minimum, that: (Ref: Para. A164)
 - (a) The unadjusted financial information ~~is be~~ extracted from an appropriate source ~~and covers an appropriate period or is at an appropriate date~~; (Ref: Para. A175-A187)
 - (b) The unadjusted financial information be at an appropriate date or cover an appropriate period; (Ref: Para. A19)
 - (c) The pro forma adjustments be:
 - (i) ~~Are d~~irectly attributable to the event or transaction; (Ref: Para. A20~~19~~-A20)
 - (ii) ~~Are f~~actually supportable; ~~and~~ (Ref: Para. A21-A22)
 - (iii) ~~Are e~~onsistent with the entity's accounting policies; and (Ref: Para. A232)
 - ~~(iv) Include at least those adjustments that are material. (Ref: Para. A23-A25)~~
 - (db) Adequate disclosure be made in The pro forma financial information ofadequately discloses:
 - (i) Its nature and purpose, including the nature of the ~~underlying~~ event or transaction; (Ref: Para. A24~~18~~)
 - (ii) The source of the unadjusted financial information, ~~and~~ whether or not an audit or review report on such a source has been published~~that source has been audited, and, if so, where such a report may be found, whether in the prospectus or otherwise;~~
 - (iii) The basis of compilation;
 - (iv) The ~~nature of the~~ pro forma adjustments, including a clear description and explanation of each adjustment; and

¹² ISAE 3000, paragraph 19.

- (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; and
- (vi) The fact 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, results or cash flows, ~~and~~
12. In addition, the practitioner shall assess whether the applicable criteria are:
- (a) ~~Are e~~Consistent, and do not conflict, with relevant laws and regulations;
 - (b) ~~Will not~~Unlikely to result in pro forma financial information that is misleading in the circumstances; and
 - (c) ~~Are a~~Adequately disclosed.

Materiality

13. When planning and performing the engagement, the practitioner shall consider materiality with respect to the proper compilation of the pro forma financial information. (Ref: Para. A25-A27)

Obtaining an Understanding of the Pro Forma Financial Information and Other Engagement Circumstances

143. 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, ~~T~~the practitioner shall read the pro forma financial information and perform the procedures set out in paragraphs 154-198 ~~to obtain an understanding of the pro forma financial information and other engagement circumstances sufficient to identify and assess the risks of material misstatement in the proper compilation of the pro forma financial information and sufficient to design and perform evidence gathering procedures. (Ref: Para. A23-A25)~~

Obtaining an Understanding of the Entity and Its Environment

154. The practitioner shall obtain an understanding of the following as they relate to the compilation of the pro forma financial information: (Ref: Para. A286)
- (a) Relevant industry, legal and regulatory, and other external factors. (Ref: Para. A297-A310)
 - (b) The nature of the entity, including:
 - (i) Its operations;
 - (ii) Its assets and liabilities; and
 - (iii) The way it is structured and how it is financed.
 - (c) The entity's accounting and financial reporting practices, including its selection and application of accounting policies.

Obtaining an Understanding of the ~~Underlying~~ Event or Transaction

~~165~~. The practitioner shall obtain an understanding of the ~~underlying~~ event or transaction in respect of which the pro forma financial information is being compiled. (Ref: Para. A32~~+~~)

Obtaining an understanding of ~~relevant~~ businesses being combined with the entity in a business combination

~~176~~. If the transaction is a business combination, the practitioner shall obtain an understanding of the following aspects of the businesses that are being combined with the entity, insofar as these aspects relate to the compilation of the pro forma financial information: (Ref: Para. A33~~2~~-A34~~3~~)

- (a) The nature of these businesses, including their operations, assets and liabilities, and the way they are structured and financed;
- (b) The nature of any relationships with the entity; and
- (c) Their accounting and financial reporting practices, including their selection and application of accounting policies.

Obtaining an understanding of a business that is being divested

~~187~~. If the transaction is a divestment, the practitioner shall obtain an understanding of the nature of the business being divested, including its operations, assets and liabilities, and the way it is structured and financed, insofar as these aspects relate to the compilation of the pro forma financial information. (Ref: Para. A35~~4~~-A36~~5~~)

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

~~194~~~~8~~. The practitioner shall obtain an understanding of the compilation process, ~~and~~ the basis of compilation of the pro forma financial information, and the competence of the responsible party in compiling the pro forma financial information. (Ref: Para. A37~~6~~-A39~~7~~)

Obtaining Evidence Regarding the Unadjusted and Any Target Financial Information

Appropriateness of the unadjusted financial information

~~204~~~~9~~. The practitioner shall read the financial information that represents the source ~~from which of~~ the unadjusted financial information ~~is extracted, including any audit or review report published thereon~~, and determine whether ~~the~~ source is appropriate in the context of the applicable criteria. (Ref: Para. A17~~5~~-A18~~6~~)

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

21. A published audit or review report issued by the practitioner on the source provides a sufficient basis for the practitioner to conclude that the source is appropriate.
22. If an audit or review report on the source has been published but was issued by another practitioner, the practitioner shall obtain an understanding of the other practitioner's independence and professional competence to determine whether there is a sufficient basis for accepting the source as appropriate. (Ref: Para. A40-A42)

23. If the practitioner concludes that there is an insufficient basis for accepting the other practitioner's work on the source, the practitioner shall perform procedures on the source to be satisfied that it is appropriate. (Ref: Para. A43)

No published audit or review report on the source of the unadjusted financial information

~~240. The~~If there is no published audit or review report on the source ~~from which the unadjusted financial information is extracted will ordinarily be financial information that has been audited or reviewed by the practitioner. Where this is not the case, the practitioner shall, having regard to the assessed risks that the pro forma financial information may not be properly compiled, perform the following procedures in relation to that source of information to be satisfied obtain sufficient appropriate evidence that it is appropriate.~~the source provides a reasonable basis for extracting the unadjusted financial information: (Ref: Para. A438-A439)

~~(a) Inquiring of the responsible party about:~~

~~(i) The process by which the source of the unadjusted financial information has been prepared and the reliability of the underlying accounting records to which the financial information is agreed or reconciled;~~

~~(ii) Whether all transactions have been recorded;~~

~~(iii) Whether the source of the unadjusted financial information has been prepared in accordance with accounting policies consistent with the entity's historical financial statements;~~

~~(iv) Whether there have been any changes to accounting policies from the prior period and, if so, how the responsible party has dealt with them;~~

~~(v) The responsible party's assessment of the risk that the source of the unadjusted financial information may be materially misstated as a result of fraud;~~

~~(vi) The effect of changes in the entity's business activities and operations; and~~

~~(vii) Any significant changes in internal control and the potential effect of any such changes on the preparation of the source of the unadjusted financial information.~~

~~(b) Checking that the source of the unadjusted financial information agrees with the underlying accounting records; (Ref: Para. A40)~~

~~(c) If the practitioner has not previously been engaged by the entity to audit or review the entity's financial information, reading the financial information (including the audit or review report) and, where appropriate and practicable, the other practitioner's working papers for the most recent audit or review of the entity's financial information to the extent necessary to identify matters that may affect the unadjusted financial information;~~

- ~~(d) Comparing the source of the unadjusted financial information with the prior period financial information and, as appropriate, the most recent annual or interim financial information; and~~
- ~~(e) Considering:
 - ~~(i) The impact of any corrected material misstatements and the potential impact of any identified uncorrected misstatements in the prior period's audited or reviewed financial statements;~~
 - ~~(ii) Significant financial reporting matters that may be of continuing significance, such as significant deficiencies in internal control;¹³~~
 - ~~(iii) If appropriate, the results of any audit procedures the practitioner has performed with respect to the current period's financial information; and~~
 - ~~(iv) The results of any internal audit or other monitoring performed by the entity with respect to financial reporting and the subsequent actions taken by the responsible party.~~~~

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.

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

26. A published audit or review report issued by the practitioner on the source provides a sufficient basis for the practitioner to conclude that the source provides factual support for the target financial information.

27. If an audit or review report on the source has been published but was issued by another practitioner, the practitioner shall obtain an understanding of the other practitioner's independence and professional competence to determine whether there is a sufficient basis for accepting the source as providing factual support for the target financial information. (Ref: Para. A40-A42)

28. If the practitioner concludes that there is an insufficient basis for accepting the other practitioner's work on the source, the practitioner shall perform procedures on the source to be satisfied that it provides factual support for the target financial information. (Ref: Para. A43)

No published audit or review report on the source of the target financial information

29. If there is no published audit or review report on the source, the practitioner shall, having regard to the assessed risks that the pro forma financial information may not be properly

¹³—A “significant deficiency in internal control” is defined in the context of an audit in ISA 265, “Communicating Deficiencies in Internal Control to Those Charged with Governance and Management,” as “a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.”

compiled, perform procedures in relation to that source to be satisfied that it provides factual support for the target financial information. (Ref: Para. A44-A46)

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

~~3021.~~ The practitioner shall ~~check whether determine whether~~ the unadjusted ~~and any target~~ financial information has been ~~accurately appropriately~~ extracted and, ~~where appropriate,~~ summarized from the relevant sources.

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

~~231.~~ ~~In some jurisdictions, the relevant law or regulation may not permit the use of, or reference in the practitioner's report to, sources of the unadjusted financial information in respect of which a modified audit opinion or review conclusion has been expressed, or for which a report containing an Emphasis of Matter paragraph has been issued. 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 financial information, or if a report containing an Emphasis of Matter paragraph has been issued with respect to that source, and the relevant law or regulation does not prohibit the use of is silent as to whether such a sources of the unadjusted financial information may be used or referred to in the practitioner's report and a modified audit opinion or review conclusion has been issued in respect of the source being used, or if the report thereon includes an Emphasis of Matter paragraph,~~ the practitioner shall consider:

- (a) The potential effect on the pro forma financial information; (Ref: Para. A47~~4~~)
- (b) What further action to take; and (Ref: Para. A48~~2~~)
- (c) Whether there is any effect on the practitioner's ability to report under the terms of the engagement.

Unadjusted or target financial information inappropriate for use in compiling the pro forma financial information

~~322.~~ If, on the basis of the procedures performed, the practitioner becomes aware of a matter that causes the practitioner to believe that the unadjusted or target financial information is not appropriate: ~~(a) Is not consistent with the entity's accounting policies; or (b) —~~ might result in the pro forma financial information being misleading, the practitioner shall discuss the matter with the responsible party ~~and, if necessary, the entity's advisors~~. 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.

Obtaining Evidence Regarding the Pro Forma Adjustments

Determining the ~~P~~pro ~~F~~forma ~~A~~adjustments to ~~B~~be ~~M~~made

~~3324.~~ The practitioner shall ~~inquire of determine whether~~ the responsible party ~~regarding how it~~ has identified the pro forma adjustments necessary for the proper compilation of the pro forma financial information.

Procedures Work Effort with Respect to the Pro Forma Adjustments

3425. With respect to the pro forma adjustments, the practitioner shall determine whether: (Ref: Para. A49)

- (a) ~~Obtain evidence that t~~They are consistent with the basis of compilation;
- (b) ~~Obtain evidence that t~~They are directly attributable to the underlying event or transaction; (Ref: ~~Para. A19~~-A20)
- (c) ~~Obtain evidence that t~~The entity responsible party has obtained appropriate factual support for them; (Ref: ~~Para. A21~~-A22)
- (d) ~~Obtain evidence that t~~They are consistent with the entity's accounting policies; and (Ref: ~~Para. A23~~)
- (e) ~~Determine that t~~They are mathematically correct have been appropriately derived arithmetically and that the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

Business combination

~~26. The practitioner shall read the financial information of the businesses that are being combined with the entity in a business combination.~~

~~27. If the underlying financial information of the businesses being combined with the entity has been prepared based on accounting policies that are not consistent with those of the entity, the practitioner shall inquire of the responsible party regarding how it has adjusted this information so that it is consistent with the entity's accounting policies.~~

~~28. In some cases, the sources of the underlying financial information of the businesses being combined with the entity will have been audited or reviewed by the practitioner. Where this is not the case, the practitioner shall perform the procedures set out in paragraph 20 as appropriate in relation to those sources of information to obtain sufficient appropriate evidence that they provide a reasonable basis for the pro forma adjustments.~~

Divestment

~~29. In some cases, the source of the underlying financial information of a business that is being divested from the entity will have been audited or reviewed by the practitioner. Where this is not the case, the practitioner shall perform the procedures set out in paragraph 20 as appropriate in relation to the source of the underlying financial information of the business being divested to obtain sufficient appropriate evidence that it provides a reasonable basis for the pro forma adjustments.~~

Omitted Adjustments

350. If, ~~:(i) As~~ as a result of the ~~inquiries and other~~ procedures the practitioner has performed to obtain an understanding of the entity and the underlying event or transaction, the practitioner ~~becomes aware of~~ concludes that a significant adjustment has been omitted that, in the practitioner's judgment, the responsible party should ~~be included~~ for purposes of the compilation; ~~or (ii) The practitioner concludes that an omitted adjustment is so~~

~~fundamental as to render the pro forma financial information misleading in the context of the prospectus~~, the practitioner shall discuss the matter with the responsible party ~~and, if necessary, the entity's advisors~~. 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.

Evaluating the Presentation of the Pro Forma Financial Information

~~361.~~ The practitioner shall evaluate whether, ~~in view of the applicable criteria~~, the pro forma financial information is appropriately presented within the context of 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, including the explanatory notes, reflects the significant effects of the ~~underlying~~ event or transaction in a manner that is not misleading;
- (c) Whether the pro forma financial information provides ~~adequate~~ appropriate disclosures to enable the intended users to understand the information conveyed, including:
 - (i) The nature and purpose of the pro forma financial information, including the nature of the ~~underlying~~ event or transaction; (Ref: Para. A~~2418~~)
 - (ii) The source of the unadjusted financial information, ~~and whether~~ or not an audit or review report on such a that source is audited has been published, and, if so, where such a report may be found, whether in the prospectus or otherwise; (Ref: Para. A~~175~~-A~~186~~)
 - (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. A~~109~~-A~~120~~)
 - (vii) ~~An indication~~ 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, results or cash flows.

Other Information

- ~~372.~~ 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 and the practitioner's report to identify material inconsistencies, if any, with the pro forma financial information. (Ref: Para. A~~5043~~)
383. 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 ~~the practitioner concludes that there is a material inconsistency or a misstatement of fact in the other information that~~ correction of the matter is necessary and the responsible party refuses to ~~correct do so~~, the practitioner shall take further appropriate action. (Ref: Para. A~~5144~~)

Forming the Opinion

394. The practitioner shall conclude whether sufficient appropriate evidence has been obtained that the pro forma financial information has been properly compiled on the basis stated. (Ref: Para. A~~452~~)
- ~~4035.~~ 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, ~~unless otherwise required by the relevant law or regulation,~~ state that "the pro forma financial information has been properly compiled on the basis stated."

Modified Opinion

- ~~4136.~~ In most jurisdictions, the relevant law or regulation may 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 ~~If~~ the practitioner concludes that a modified opinion ~~on the proper compilation of the pro forma financial information~~ is appropriate, the practitioner shall discuss the matter with the responsible party. If the responsible party ~~refuses does not agree~~ to make the necessary changes, the practitioner shall withdraw from the engagement or consider seeking legal advice ~~take further appropriate action.~~ (Ref: Para. A~~46~~)
42. 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.

Circumstances When a Modified Opinion Is Appropriate

- ~~437.~~ The practitioner shall modify the opinion in the practitioner's report when:
- The practitioner concludes that, based on the evidence obtained, ~~the compilation of the pro forma financial information is~~ has not been properly compiled on the basis stated ~~free from material misstatement~~; or

- (b) The practitioner is unable to obtain sufficient appropriate evidence to conclude ~~that the compilation of whether~~ the pro forma financial information is ~~free from material misstatement properly compiled~~.

~~4438~~. 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

~~4539~~. When the practitioner modifies the opinion, the practitioner shall, in addition to the specific elements set out in paragraph ~~560~~ 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

~~460~~. The practitioner shall express a qualified opinion when the practitioner, having obtained sufficient appropriate evidence, concludes that ~~misstatements in the compilation of a matter that causes~~ the pro forma financial information ~~not to be properly compiled is, individually or in the aggregate, are~~ material but not pervasive ~~to the pro forma financial information~~.

~~471~~. When the practitioner expresses a qualified opinion due to a material ~~matter/misstatement in the compilation of the pro forma financial information~~, the practitioner shall state in the opinion paragraph that, in the practitioner’s opinion, except for the effects 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. A60)

~~482~~. When the modification arises from an inability to obtain sufficient appropriate evidence, the practitioner shall use the corresponding phrase “except for the possible effects of the matter(s) ...” for the modified opinion.

Adverse opinion

~~493~~. ~~In extremely rare circumstances, t~~The practitioner shall express an adverse opinion when the practitioner, having obtained sufficient appropriate evidence, concludes that ~~misstatements in the compilation of the pro forma financial information 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.

~~5044~~. 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

451. 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 effects of undetected matters, if any, that cause on the proper compilation of the pro forma financial information not to be properly compiled of undetected misstatements, if any, could be both material and pervasive.

5246. 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.

Different Wording of Opinion Prescribed by the Relevant Law or Regulation

5347. If the relevant law or regulation prescribes the wording of the opinion in terms that are different from those described in paragraph 4035, the practitioner shall: (Ref: Para. A98)

- (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.

548. 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

4955. If the relevant law or regulation requires the practitioner to express an opinion on further matters in addition to whether the pro forma financial information is properly compiled on the basis stated, the practitioner shall perform any further procedures necessary to express an opinion on the additional matters. (Ref: Para. A5348-A550)

Preparing the Assurance Report

Content of the Practitioner's Report

560. The practitioner's report shall include the following basic elements: (Ref: Para. A59)

- (a) A title that clearly indicates the report is an independent assurance report. (Ref: Para. A56+)
- (b) An addressee(s), as agreed in the terms of engagement. (Ref: Para. A5752)
- (c) An introductory paragraph that identifies: (Ref: Para. A5853)

- (i) The pro forma financial information.
- (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 elsewhere. ~~(Ref: Para. A54)~~
- (iii) The period covered by, or the date of, the pro forma financial information.
- (iv) A reference to the basis of compilation of the pro forma financial information.
- (d) A reference to the applicable criteria and the source of the criteria.
- (e) A description of the responsibilities of the responsible party, including a statement that the responsible party is responsible for compiling the pro forma financial information in accordance with the applicable criteria.
- (f) A description of the practitioner’s responsibilities, including statements that:
 - (i) The practitioner’s responsibility is to express an opinion about whether the pro forma financial information has been properly compiled on the basis stated ~~and to report the practitioner’s opinion to the addressee(s) of the report;~~
 - (ii) The ~~assurance engagement does not require practitioner has not performed~~ an audit or review of the pro forma financial information or any of the underlying financial information, ~~including the pro forma adjustments and the basis of compilation;~~ and
 - (iii) 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 for any events that occurred subsequent to the date of the practitioner’s report.~~
- (g) A statement that the engagement was performed in accordance with ~~ISAE 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information,” and ISAE 3420XX,~~ “Assurance Reports on the Proper Compilation of 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 pro forma financial information has been properly compiled on the basis stated.
- (h) A summary of the practitioner’s procedures.
 - (i) The practitioner’s opinion as to whether the pro forma financial information has been properly compiled on the basis stated.
 - (j) The ~~name of the~~ practitioner signature ~~or the practitioner’s firm.~~
 - (k) The date of the report. ~~(Ref: Para. A55)~~
 - (l) The city address where the practitioner maintains the office that has responsibility for the engagement.

Application and Other Explanatory Material

Compilation of Pro Forma Financial Information for Inclusion in a Prospectus (Ref: Para. 1.8(e))

- A1. 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 ~~some~~ unadjusted financial information of the entity, had the event occurred or the transaction been undertaken at an earlier ~~different~~ date selected for purposes of the illustration. This is achieved by applying pro forma adjustments to the unadjusted financial information. For example, pro forma financial information may 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 in and of itself does not constitute financial statements but is intended solely to provide supplemental information to illustrate a hypothetical situation.
- A2. The compilation of pro forma financial information is the responsibility of the responsible party¹⁴ within the entity. The practitioner's responsibility is solely to express an opinion on the proper compilation of the pro forma financial information on the basis stated. Such opinion does not include the provision of any assurance on the unadjusted or any other underlying financial information, as the pro forma financial information is compiled solely to illustrate the hypothetical effect of an event or transaction.
- A3. The process of compiling pro forma financial information involves 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 used in the compilation of the pro forma financial information;
 - Accurately ~~Appropriately~~ extracting the unadjusted financial information from ~~an appropriate source or the relevant~~ sources;
 - Appropriately considering 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;
 - Making appropriate adjustments to the unadjusted financial information ~~that are appropriate and accurately extracted from appropriate sources~~ for the purpose for which the pro forma financial information is presented;
 - Making an accurate computation of the pro forma financial information; and
 - Appropriately presenting the pro forma financial information within the context of the applicable criteria and in a way that is not misleading, including Mmaking appropriate disclosures to enable intended users to understand the pro forma financial information.

¹⁴ ~~The Assurance Framework, paragraphs 25-26, describes the meaning of the term "responsible party."~~

Subject Matter and Subject Matter Information Assertion-Based and Direct Reporting Engagements (Ref: Para. 3)

A4. In the context of the Assurance Framework, the subject matter is the effect that an ~~underlying~~ event or transaction would have had on the unadjusted financial information had the event occurred or the transaction been undertaken at the date used for the illustration. The subject matter information is the pro forma financial information in respect of which the practitioner expresses an opinion as to whether that information is properly compiled on the basis stated in the explanatory notes to the pro forma financial information.

Definitions

Basis of Compilation (Ref: Para. 8(b))

A5. In compiling the pro forma financial information, the responsible party ~~may need to will~~ make certain choices and decisions as to how the pro forma financial information is to be constituted in the light of the ~~underlying~~ 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).

~~Collectively, these choices and decisions represent the responsible party's judgments as to how the pro forma financial information is to be compiled to reflect the significant effects of the underlying event or transaction on the unadjusted financial information.~~

Pro Forma Financial Information (Ref: Para. 8(d))

A6. 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. Matters that are ordinarily disclosed within the related explanatory notes include:

- The nature and purpose of the pro forma financial information, including the nature of the ~~underlying~~ event or transaction
- The source of the unadjusted financial information and whether or not an audit or review report on this that source is audited has been published
- The basis of compilation of the pro forma financial information
- The nature of the pro forma adjustments

- The applicable criteria in accordance with which the pro forma financial information has been compiled
- ~~An indication 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, results or cash flows

Unadjusted Financial Information (Ref: Para. 8(h))

A7. 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 report on the proper compilation of pro forma financial information based on profit forecasts, the practitioner is required by paragraph 11(c)(ii) to determine whether the relevant pro forma adjustments are capable of being factually supported. Engagements to examine and report on prospective financial information (including profit forecasts) are dealt with under ISAE 3400.¹⁵

Engagement Acceptance

Capabilities and Competence to Perform the Engagement (Ref: Para. 10(a)(i))

~~A87. An engagement to report on the proper compilation of pro forma financial information included in a prospectus requires the practitioner to have:~~¹⁶ The IFAC 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

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

Required Form of Reporting (Ref: Para. 10(a)(ii), 5347)

A98. 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 4035). An assessment 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

¹⁵ ISAE 3400, "The Examination of Prospective Financial information."

¹⁶ IFAC 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.

Applicable Criteria (Ref: Para. 8(~~ab~~), 10(a)(iii), 364(c)(vi))

A109. The criteria for the compilation of pro forma financial information may be either established by an authorized or recognized standard setting organization or, ~~as will often be the case in many jurisdictions,~~ specified in the relevant law or regulation. Established criteria will generally meet at least the benchmarks set out in paragraphs 11-12.

A110. Where established criteria do not exist, the responsible party may develop the applicable criteria, for example, based on practice in a particular industry. The criteria will be considered suitable in the circumstances if they meet at least the benchmarks set out in paragraphs 11-12.

A12. In addition to the matters set out in paragraph 11, applicable criteria may also specify the form, presentation, and other content of the pro forma financial information.

Agreement of the Responsibilities of the Responsible Party (Ref: Para. 10(~~de~~))

A134. 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 10(~~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. ~~ISAEs do not override law or regulation in such matters. However, a~~An assurance engagement to report on the proper compilation of pro forma financial information ~~requires~~is based on the assumption that:

- (a) The practitioner's role does not involve taking responsibility for the compilation of 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 3000.¹⁷

A142. ~~[As [proposed revised] ISAE 3000 explains,¹⁸]~~ 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 10(~~de~~).

¹⁷ ISAE 3000, paragraph 10.

¹⁸ ~~[Proposed revised] ISAE 3000, paragraph xx. The IAASB is currently considering a revision of ISAE 3000 under a separate project.~~

Access to Information (Ref: Para. 10(~~de~~)(iv)a)

A1~~53~~. Where ~~appropriate~~applicable, access to information includes access to the information of acquired businesses ~~acquired~~ in the case of a business combination.

Planning and Performing the Engagement

Assessing the Suitability of the Applicable Criteria (Ref: Para. 11)

A1~~64~~. The compilation of pro forma financial information ~~requires~~involves the responsible party ~~to determine~~ing the information that needs to be reflected in the pro forma financial information so as to illustrate ~~appropriately~~ the effect of the underlying 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 and is based on a hypothetical situation, it is important that the criteria in accordance with which it is compiled are appropriate and transparent.

Source of the Unadjusted Financial Information (Ref: Para. 11(a), ~~2019~~, ~~361~~(c)(ii))

A1~~75~~. Factors that may affect the appropriateness of the source of the unadjusted financial information include whether the source:

- Is permitted or required under the relevant law or regulation, or ~~is acceptable to~~ 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 in the context of the underlying event or transaction.
- Is used as such under normal market custom and practice.

A1~~86~~. The source of the unadjusted financial information will ordinarily be published financial information such as ~~the entity's~~ annual or interim financial statements, and therefore will be clearly identifiable. ~~The publication of such information helps to lend credibility to it as a source of the unadjusted financial information. In some jurisdictions, the relevant law or regulation may require that the this source of the unadjusted financial information to be audited or reviewed while others may not. An audit or review of the source and whether such audit or review was performed by the practitioner are factors in deciding whether the unadjusted financial information is credible and not misleading.~~

Period Covered by, or Date of, the Unadjusted Financial Information (Ref: Para. 11(~~ab~~))

A1~~97~~. Factors that may affect the appropriateness of the period or date selected for the unadjusted financial information include whether:

- It is permitted or required under the relevant law or regulation, or ~~is acceptable to~~ permitted by the relevant securities exchange with which the prospectus is to be filed.

- It is reasonable having regard to the ~~underlying~~ 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. 11(c)(i), ~~3425~~(b))

~~A2019.~~ In order to avoid the pro forma financial information reflecting matters that do not arise solely as a result of the ~~underlying~~ event or that are not an integral part of the ~~underlying~~ transaction, it is necessary that pro forma adjustments be directly attributable to the event or transaction. ~~For example, if the entity's historical income statement includes a material restructuring provision that did not result directly from the underlying transaction for which the pro forma financial information is presented, it would not be appropriate to remove this historical restructuring provision as a pro forma adjustment as such an adjustment would not be directly attributable to the transaction. A20.~~ ~~In addition, d~~Directly attributable adjustments exclude those that relate to future events or are dependent on actions to be taken once the ~~underlying~~ 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. 11(c)(ii), ~~3425~~(c))

A21. 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 ~~a reasonable degree of~~ objective determination. Sources of factual support for the pro forma adjustments include, for example:

- Purchase and sale agreements
- Financing documents for the ~~underlying~~ event or transaction, such as debt agreements
- Independent valuation reports
- Other documents relating to the ~~underlying~~ 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

A22. 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 acquired business. To the extent that such pro forma adjustments have been appropriately extracted from such sources and where such sources have been audited or reviewed by the practitioner, they will be factually supportable. Where the sources have been audited or reviewed by other practitioners, the pro forma adjustments may, subject to

the practitioner's obtaining an understanding of the other practitioners' independence and competence (see paragraph 27), be considered factually supportable.

Consistent Accounting Policies (Ref: Para. 11(c)(iii), ~~3425~~(d))

A232. A necessary criterion is that the pro forma adjustments are consistent with the entity's accounting policies ~~to avoid so that~~ the resulting pro forma financial information being is not misleading for the purposes for which it is intended. Consequently, in the particular context of a business combination, the compilation of the pro forma financial information involves consideration of whether differences exist between the accounting policies of the acquired business or businesses and those of the entity.

Disclosure of the Nature of the Pro Forma Financial Information (Ref: Para. 11(~~db~~)(i), ~~364~~(c)(i))

A2418. Different types of pro forma financial information may be included in the prospectus depending on the nature of the ~~underlying~~ event or transaction and how the responsible party intends to illustrate the effect of such event or transaction on the 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 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 net asset statement at that date to illustrate the effect of the acquisitions on the entity's financial position and key ratios such as ~~gearing debt to equity~~. In this regard, adequate disclosure of the nature of the pro forma financial information may be provided by a title such as "Pro Forma Income Statement for the Year Ended December 31, 20X1" or "Statement of Pro Forma Net Assets as at December 31, 20X1," ~~with a statement indicating 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 results or position.~~

Materiality (Ref: Para. ~~11(e)(iv)~~-13)

A253. ~~ISAE 3000 requires the practitioner to consider materiality when planning and performing the engagement.~~⁴⁹ ~~In the context of an engagement to report on whether~~ pro forma financial information has been properly compiled, matters are material if their omission or misstatement could, individually or collectively, influence the economic decisions of the intended users of the information. Materiality depends on the size and nature of the omission or misstatement, 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.

A264. Examples of ~~misstatements in a compilation of matters that may cause~~ pro forma financial information not to be properly compiled include:

- Use of an inappropriate source for the unadjusted financial information.
- Incorrect extraction of the unadjusted financial information from an appropriate source.

⁴⁹ ~~ISAE 3000, paragraph 22.~~

- In relation to adjustments, the misapplication of accounting policies or failure to use consistent accounting policies.
- Failure to make an adjustment required by the ~~relevant law or regulation~~ applicable criteria.
- Making an adjustment that ~~does is~~ not comply in accordance with the ~~relevant law or regulation~~ applicable criteria.
- A mathematical or clerical mistake.
- Inadequate, incorrect or omitted disclosures.

A275. Evaluating whether an omission or misstatement could influence economic decisions of the intended users of the pro forma financial information, and so be material, ~~requires 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-~~
- (c) Have an understanding of the limitations of pro forma financial information.

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 Pro Forma Financial Information and Other Engagement Circumstances

Obtaining an Understanding of the Entity and Its Environment (Ref: Para. 154)

A286. The practitioner may have all or part of the required understanding of the entity and its environment if the practitioner has audited or reviewed the entity's most recent financial information.

Relevant industry, legal and regulatory, and other external factors (Ref: Para. 154(a))

A2927. 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.

~~A28. The industry in which the entity operates may require the practitioner to have sufficient relevant knowledge and experience to perform the engagement given the nature of the business or the degree of regulation. For example, a highly regulated entity that deals with complex financial instruments as a normal part of its business may call for specialized knowledge on the part of the practitioner.~~

A3029. Relevant legal and regulatory factors include the legal and regulatory environment, ~~which. The legal and regulatory environment~~ encompasses, among other matters, the applicable financial reporting framework in accordance with which the entity prepares the source of its unadjusted 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 operations, including direct supervisory activities.
- Taxation (corporate and other).
- Government policies currently affecting the conduct of the entity'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 industry and the entity's business.

A310. Examples of other external factors affecting the entity 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 the ~~Underlying~~ Event or Transaction (Ref: Para. 165)

A324. The practitioner may obtain an understanding of the ~~underlying~~ event or transaction through procedures such as the following:

- Inquiry of the responsible party and other appropriate parties such as those charged with governance and the entity's advisors.
- Inspecting relevant supporting documentation such as contracts or agreements.
- Reading minutes of meetings of those charged with governance.

Obtaining an understanding of ~~relevant~~ businesses being combined with the entity in a business combination (Ref: Para. 176)

A332. Businesses that may be combined with the entity as part of a business combination include not only incorporated entities but also separately identifiable unincorporated operations within other entities such as divisions, branches or lines of business.

A343. The practitioner may have all or part of the required understanding of the businesses that are being combined with the entity if the practitioner has audited or reviewed the financial information of these businesses.

Obtaining an understanding of a business that is being divested (Ref: Para. 187)

A354. Businesses that may be divested from the entity include not only incorporated businesses such as subsidiaries and joint ventures but also separately identifiable unincorporated operations within the entity such as divisions, branches or lines of business.

A365. The practitioner may have all or part of the required understanding of the business being divested if the practitioner has audited or reviewed the entity's financial information.

Obtaining an Understanding of the Compilation Process and the Basis of Compilation (Ref: Para. 1948)

A376. 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.

A38. 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. If not, the practitioner may obtain an understanding of the responsible party's competence through discussion with, and observation of, the responsible party in compiling the pro forma financial information.

A397. In a business combination or divestment, areas that may give rise to complexity in the compilation of the pro forma financial information include allocations of overheads and assets and liabilities among or between the relevant businesses. Accordingly, it is important that the basis of compilation explain the bases for such allocations.

Obtaining Evidence Regarding the Unadjusted and Any Target Financial Information

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

Audit or review report issued by another practitioner (Ref: Para. 22, 27)

A40. The nature, timing and extent of the practitioner's procedures to obtain an understanding of the other practitioner vary with the practitioner's previous experience with or knowledge of the other practitioner.

A41. The practitioner may obtain an understanding of the other practitioner in a number of ways, for example:

- Discussing with the other practitioner matters relating to its independence and professional competence, for example, whether the other practitioner complies with the IFAC 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.

A42. The practitioner's understanding of the other practitioner's professional competence may include whether the other practitioner possesses:

- An understanding of auditing and other standards applicable to the audit or review of the source;
- The special skills (for example, industry-specific knowledge) necessary to perform the audit or review of the source; and
- An understanding of the applicable financial reporting framework.

Procedures when the practitioner decides not to accept the other practitioner's work on the source (Ref: Para. 23, 28)

A43. The nature and extent of procedures the practitioner may perform on the source will vary with the practitioner's understanding of the other practitioner's independence and professional competence. These procedures may include those set out in paragraph A45.

~~Work Effort if the No published audit or review report on the Ssource of the Uunadjusted or target Ffinancial Iinformation Has Not Been Audited or Reviewed~~ (Ref: Para. 240, 29)

~~A38. In some jurisdictions, the relevant law or regulation may permit the entity to use financial information that has not been audited or reviewed as the source of the unadjusted financial information, for example, interim financial information.~~

A44. Considerations that may be relevant to the practitioner's assessment of the risks that the pro forma financial information may not be properly compiled 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. An audit or review report issued by the practitioner provides a sufficient basis for the practitioner to conclude that the source of the unadjusted financial information is appropriate or that the source of the target financial information provides factual support for the target financial information.
- Whether the practitioner has previously audited or reviewed the financial information of the entity or, in a business combination, the financial information of the acquired business and the practitioner's findings from such an engagement. For example, if the source of the unadjusted financial information has not been audited or reviewed, the extent of the practitioner's work on the appropriateness of this source may not need to be as extensive if the practitioner has prior knowledge of the entity through having audited or reviewed the entity's financial statements for the immediately preceding prior period, as compared to the extent of work that may be needed if the practitioner has no prior knowledge of the entity.
- Whether the financial information of the entity or, in a business combination, the financial information of the acquired business is subject to periodic review by the practitioner, for example, for purposes of meeting regulatory filing requirements.

- Whether the financial information of the entity or, in a business combination, the financial information of the acquired business 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 acquired business.
- Whether the responsible party has previously compiled pro forma financial information under the same applicable criteria.

A45. In most cases, the financial information of the entity or, in the case of a business combination, that of the acquired business for the immediately preceding prior period will have been audited or reviewed. If such circumstances apply but the source itself has not been audited or reviewed, procedures that the practitioner may perform, having regard to the risk assessment considerations in paragraph A44, 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:
 - 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 accounting policies consistent with the historical financial statements of the entity or acquired business, as appropriate.
 - 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.
 - Their assessment of the risk that the source may be materially misstated as a result of fraud.
 - The effect of changes in the business activities and operations of the reporting entity or acquired or divested business, 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 acquired or divested business, the parties responsible for the source of the target financial information.

A46. In the rare circumstances where the financial information of the entity or, in the case of a business combination, that of the acquired business has never been audited or reviewed, the practitioner may likely need to perform additional procedures, the extent of which will nevertheless be less than for a review of the source. These procedures may include, for example:

- Obtaining the trial balance and determining whether it agrees with the general ledger and the source.

- Considering whether there could be material unrecorded liabilities.
- 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 major sales and expenses has taken place in the appropriate periods.

~~A39. Often, the practitioner will have been engaged to audit or review the entity's financial information for the immediately preceding prior period(s). In such circumstances, the practitioner may already have a significant amount of evidence regarding the unadjusted financial information. Nevertheless, the performance of the procedures in paragraph 20 as necessary enables the practitioner to update the evidence the practitioner may already have obtained to the date of the unadjusted financial information.~~

Modified ~~A~~udit ~~O~~pinion or ~~R~~eview ~~C~~onclusion, or ~~E~~mphasis of ~~M~~atter ~~P~~paragraph with ~~R~~espect to either the ~~S~~source of the ~~U~~nadjusted ~~F~~inancial ~~I~~nformation or the source of the target financial information (Ref: Para. ~~231(a)-(b)~~)

~~A474.~~ 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 financial information may necessarily have an effect on 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 effect on pro forma income and net asset statements.

~~A482.~~ Further action that the practitioner may take includes, for example:

- Discussing the matter with the responsible party.
- Seeking advice from the practitioner's legal counsel regarding the implications for the engagement.
- Withdrawing from the engagement.

Obtaining Evidence Regarding the Pro Forma Adjustments

Procedures with respect to the pro forma adjustments (Ref: Para. 34)

A49. The practitioner may obtain evidence regarding the pro forma adjustments through procedures such as:

- Inquiries of the responsible party and others within the entity
- Inquiries of relevant parties within the acquired business in a business combination
- Inspection of relevant contracts, agreements or other documents
- Recomputation of the pro forma adjustments
- Analytical procedures

~~Checking that the source of the unadjusted financial information agrees with the underlying accounting records (Ref: Para. 20(b))~~

~~A40. Checking that the source of the unadjusted financial information agrees with the underlying accounting records ordinarily involves checking on a test basis that the source has been accurately derived from the underlying trial balance but not an audit of the underlying transactions. The practitioner may consider the responsible party's responses to the practitioner's inquiries in paragraph 20(a) in determining the extent to which to check that the source agrees with the underlying accounting records.~~

Evaluating the Presentation of the Pro Forma Financial Information

Other Information (Ref: Para. ~~372-33~~)

A~~43~~50. The IFAC 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.²⁰

Material inconsistency or apparent misstatement of fact (Ref: Para. 38)

A~~51~~44. 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.
- ~~In rare circumstances, w~~Withdrawing from the engagement; where ~~withdrawal this~~ is possible under the relevant law or regulation.

Forming the Opinion

Subsequent Events (Ref: Para. ~~394~~)

A~~45~~2. Pro forma financial information is intended to illustrate the effect of an event or transaction on unadjusted financial information that is published for a given period or at a given point in time. For this reason, the applicable criteria ordinarily do not require the responsible party to adjust:

- (a) The unadjusted financial information; and
- (b) The financial information of acquired businesses in a business combination or divested businesses in a divestment,

for subsequent events after the date on which such financial information was authorized for publication. Accordingly, there is also no requirement for the practitioner to obtain evidence and report on the effects of events that occurred after this date.

²⁰ The IFAC Code, paragraph 110.2.

Modified Opinion (Ref: Para. 36)

~~A46. Further appropriate action that the practitioner may take if a modified opinion is appropriate includes, for example:~~

- ~~• Issuing the report with the modified opinion if the securities exchange will accept a prospectus containing such modified opinion. In most jurisdictions, however, securities exchanges do not accept prospectuses that contain modified opinions on the proper compilation of pro forma financial information.~~
- ~~• Seeking advice from the practitioner’s legal counsel.~~
- ~~• Withdrawing from the engagement.~~

Assurance on Further Matters Required by the Relevant Law or Regulation (Ref: Para. 4955)

~~A5348. In some jurisdictions, ¶~~The relevant law or regulation may require the practitioner to express an opinion about whether the basis of compilation is consistent with the entity’s accounting policies. Compliance with the requirement in paragraph ~~3425~~(d) of this ISAE provides a basis for ~~obtaining sufficient appropriate evidence to express~~ing such an opinion ~~and, accordingly, if the practitioner has obtained such evidence in compliance with this requirement,~~ the practitioner need not perform additional procedures ~~to express that opinion.~~

~~A549.~~ Where the relevant law or regulation requires the practitioner to express an opinion on other matters related to the proper compilation of 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 in the Practitioner’s Report

~~A550. In some jurisdictions, ¶~~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 ~~does not constitute non-compliance is not incompatible~~ with the requirements of this ISAE.

Preparing the Assurance Report

Content of the Practitioner’s Report

Title (Ref: Para. 560(a))

~~A561.~~ A title indicating that the report is the report of an independent practitioner, for example, “Report of the Independent Reporting Accountant Practitioner’s Assurance Report on the Proper Compilation of Pro Forma Financial Information,” affirms that the practitioner has met all of the relevant ethical requirements regarding independence as

required by ISAE 3000.²¹ This distinguishes the report of the independent practitioner from reports issued by others.

Addressee(s) (Ref: Para. 560(b))

A572. 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.

Introductory Paragraph (Ref: Para. 560(c))

A583. 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 to identify the pro forma financial information to which the practitioner's report relates.

~~Source of the unadjusted financial information (Ref: Para. 50(e)(ii))~~

~~A54. The practitioner may consider it appropriate to indicate whether the source of the unadjusted financial information has been audited or reviewed. Where additional underlying financial information (such as financial information of acquired businesses in a business combination) has been used in the compilation of the pro forma financial information, the practitioner may also consider it appropriate to indicate whether the sources of such additional financial information have been audited or reviewed. In addition, where a modified audit opinion or review conclusion has been expressed with respect to any of these sources of information, the practitioner may indicate so.~~

~~Date of the Report (Ref: Para. 50(k))~~

~~A55. The practitioner's report is ordinarily dated not later than the date of the prospectus in which the pro forma financial information is included.~~

Illustrative Reports

Unmodified opinion (Ref: Para. 56)

A596. A practitioner's report with an unmodified opinion is set out in Appendix 1.

Illustration Qualified opinion (Ref: Para. 47)

A6047. An ~~example~~ practitioner's report ~~containing with~~ a qualified opinion is set out in Appendix 2.

²¹ ISAE 3000, paragraph 4.

Illustration of a Practitioner’s Report with an Unmodified Opinion

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

To: [Appropriate addressee(s)]

We have completed our assurance engagement to report on the proper compilation of the pro forma financial information dated [date], consisting of [the pro forma income statement 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 is described in [Note X]. The pro forma financial information has been compiled for illustrative purposes only to provide information about how the [event or transaction] set out in [Note Y] might have affected the [financial performance of the company for the period ended [date]] [and its] [financial position as at that date]. Information about the company’s [financial performance] [and its] [financial position] has been extracted from the company’s [audited/unaudited] 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 addresses a hypothetical situation and, therefore, does not represent the company’s actual financial position or results.

Management’s Responsibility for the Pro Forma Financial Information

Management of ABC Company is responsible for compiling the pro forma financial information in accordance with [applicable criteria] [issued by [source]/developed by management as set out in Note Z].

Practitioner’s Responsibilities

Our responsibility is to express an opinion [, as required by [Securities Regulation XX],] about whether the pro forma financial information has been properly compiled on the basis stated ~~and to report that opinion to you. Our assurance engagement does not require~~ We have not performed an audit or review of the pro forma financial information or any of the underlying financial information, [including the adjustments to conform the accounting policies of XYZ Company to the accounting policies of the company] ~~or the assumptions summarized in the accompanying notes.~~ We are not responsible for updating any reports or opinions on any financial information used in the compilation of the pro forma financial information, ~~and for any events that occurred subsequent to the date of this report.~~

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) ~~3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information,” and ISAE 3420XX,~~ “Assurance Reports on the Proper Compilation of Pro Forma Financial Information Included in a Prospectus,” issued by the International Auditing and Assurance Standards Board. ~~These standards~~ require that we comply with ethical

requirements and plan and perform our procedures to obtain reasonable assurance about whether the pro forma financial information has been properly compiled on the basis stated.

Our procedures included comparing the unadjusted financial information with the source documents; assessing whether the pro forma financial information has been compiled on the basis of accounting policies consistent with those used by the company; considering the evidence supporting the pro forma adjustments; recomputing the calculation of the pro forma financial information; ~~discussing~~ making inquiries of management regarding the pro forma financial information ~~with management~~; and evaluating the overall presentation and disclosure of the pro forma financial information.

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

Opinion

In our opinion, 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. A6047)

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 ~~form~~express an opinion ...

We conducted our engagement ...

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 effects 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]