

Assurance Reports on the ~~Process to~~ Proper Compilation of Pro Forma Financial Information Included in a Prospectus—

Draft International Standard on Assurance Engagements 3420

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

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Proposed International Standard on Assurance Engagements (ISAE) 3420, *Assurance Reports on the Proper Compilation of Pro Forma Financial Information Included in a Prospectus*, should be read in conjunction with the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*.

Introduction

Scope of this ISAE

1. This International Standard on Assurance Engagements (ISAE) deals with reasonable assurance engagements undertaken by a ~~professional accountant in public practice~~¹ (for purposes of this ISAE referred to as a “practitioner”)² to report on the ~~process to proper compilation of~~ pro forma financial information included in a prospectus. The ISAE applies; where:
 - ~~s~~Such reporting is required by securities law or the regulation of the securities exchange (“relevant law or regulation”) in the jurisdiction in which the prospectus is to be issued;~~;~~ or
 - ~~where t~~This reporting is generally accepted practice in such jurisdiction.

Nature of the Practitioner’s Responsibility

2. In an engagement performed under this ISAE, the practitioner has no responsibility ~~for to~~ compiling the pro forma financial information for the entity;~~;~~ ~~S~~such responsibility rests with the responsible party;~~;~~³ ~~with t~~The practitioner’s ~~sole being~~ responsibility ~~for is to~~ reporting on the proper compilation process applied by the responsible party to compile of the pro forma financial information by the responsible party.
3. This ISAE does not deal with non-assurance engagements in which the practitioner is engaged by the entity to compile its historical financial statements. Such engagements are dealt with in ISRS 4410.⁴

Purpose of Pro Forma Financial Information Included in a Prospectus

4. The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity; ~~had as if~~ the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. This is achieved by applying pro forma adjustments to the unadjusted financial information. Pro forma financial information in and of itself does not represent the entity’s actual financial position, financial performance, or cash flows. (Ref: Para. A1–A2)

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

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

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

⁴ International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*

~~Process to~~ Compilation of Pro Forma Financial Information

5. The ~~process to~~ compilation of pro forma financial information involves the responsible party gathering, classifying, ~~and~~ summarizing ~~relevant and presenting~~ financial information that illustrates the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at the selected date. Steps involved in this process include:
- Identifying the source of the unadjusted financial information to be used in compiling the pro forma financial information, and extracting the unadjusted financial information from that source; (Ref: Para. A3–A4)
 - Making pro forma adjustments to the unadjusted financial information for the purpose for which the pro forma financial information is presented; and
 - Presenting the resulting pro forma financial information with accompanying disclosures.

[LAST SENTENCE MOVED TO DEFINITIONS]

6. A reasonable assurance engagement to report on the proper compilation of pro forma financial information involves performing procedures to obtain evidence about whether:

- The responsible party has an appropriate basis for presenting the significant effects directly attributable to the event or transaction (see paragraphs 14–15, 17–20, 24, and 25(a));
- The related pro forma adjustments give appropriate effect to that identified basis (see paragraphs 16, 21 and 22); and
- The pro forma column reflects the proper application of those adjustments to the unadjusted financial information (see paragraphs 23 and 25(b)).

It also involves evaluating the overall presentation of the pro forma financial information (see paragraphs 26–27). The ~~practitioner's report engagement, however,~~ does not ~~include~~ involve the practitioner ~~expressing an~~ of an opinion on the pro forma financial information itself or on the unadjusted or any other underlying financial information.

Relationship with Other Professional Pronouncements

67. The performance of assurance engagements other than audits or reviews of historical financial information requires the practitioner to comply with ISAE 3000.⁵ 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 process to~~ compilation of pro forma financial information included in a prospectus. The ~~International Framework for Assurance Engagements~~ Assurance Framework, which

⁵ ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

defines and describes the elements and objectives of an assurance engagement, provides context for understanding this ISAE and ISAE 3000.

78. Compliance with ISAE 3000 requires, among other things, that the practitioner:
- eComply with the independence and other requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code);⁶ and
 - implement quality control procedures that are applicable to the individual engagement.⁶

Effective Date

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

Objectives

910. The objectives of the practitioner are:
- (a) To obtain reasonable assurance about whether ~~the process to compile~~ the pro forma financial information has been properly compiled ~~applied~~ by the responsible party ~~in accordance with the applicable criteria on the basis stated~~; and
 - (b) To report in accordance with the practitioner's findings.

Definitions

110. For purposes of this ISAE, the following terms have the meanings attributed below:
- (a) *Applicable criteria* – The criteria ~~in accordance with which the process to used by the responsible party when~~ compiling the pro forma financial information ~~is to be applied by the responsible party~~. Applicable criteria may be established either by an authorized or recognized standard-setting organization or by law or regulation. Where established applicable criteria do not exist, they may be developed by the responsible party. (Ref: Para. A5–A67)
 - (b) *Basis stated* – The applicable criteria together with explanatory notes describing how the applicable criteria have been applied in illustrating the effects of the particular event or transaction. (Ref: Para. A7)
 - (c) *Practitioner* – A professional accountant in public practice. The IESBA Code defines a professional accountant as “an individual who is a member of an IFAC member body,” and a professional accountant in public practice as “a professional accountant, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.”

⁶ ISAE 3000, paragraphs 4 and 6

- (~~db~~) *Pro forma adjustments* – ~~Adjustments made~~In relation to unadjusted financial information, ~~these~~including:
- (i) Adjustments to unadjusted financial information that illustrate the impact of a significant event or transaction (“event” or “transaction”) as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration; and
 - (ii) Adjustments to unadjusted financial information that are necessary for the pro forma financial information to be compiled on a basis consistent with the applicable financial reporting framework of the reporting entity (“entity”) and its accounting policies under that framework. (Ref: Para. A15–A16)

Pro forma adjustments include the relevant financial information of a business that has been, or is to be, acquired (“acquiree”), or a business that has been, or is to be, divested (“divestee”), to the extent that such information is used in compiling the pro forma financial information (“acquiree or divestee financial information”).

- (~~ee~~) *Pro forma financial information* – Financial information shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information ~~assuming that as if~~ the event had occurred or the transaction ~~had~~ been undertaken at an earlier date ~~used~~selected for purposes of the illustration.
- (~~f~~) *Properly compiled* – ~~In this ISAE, describing the pro forma financial information as being “properly compiled” means that~~ When the responsible party ~~process to compile the pro forma financial information~~ has, in all material respects, performed the compilation of the pro forma financial information on the basis stated~~been applied by the responsible party in accordance with the applicable criteria.~~ (Ref: Para. A17–A19)
- (~~gd~~) *Prospectus* – A document issued pursuant to legal or regulatory requirements relating to the entity’s securities on which it is intended that a third party should make an investment decision.
- (~~he~~) *Published financial information* – Financial information of the entity or of an acquiree or a divestee that is made available publicly.
- (~~if~~) *Published audit or review report* – An audit or review report that is made available publicly.
- (~~ig~~) *Unadjusted financial information* – Financial information of the entity to which pro forma adjustments are applied by the responsible party. (Ref: Para. A8)

Requirements

ISAE 3000

- 1~~2~~. The practitioner shall not represent compliance with this ISAE unless the practitioner has complied with the requirements of both this ISAE and ISAE 3000.

Engagement Acceptance

132. Before agreeing to accept an engagement to report on the ~~process to proper~~ compilation of pro forma financial information included in a prospectus, the practitioner shall:
- (a) Determine that the practitioner has the capabilities and competence to perform the engagement; (Ref: Para. A89)
 - (b) On the basis of a preliminary knowledge of the engagement circumstances and discussion with the responsible party, determine that ~~the applicable criteria are suitable and that~~ it is unlikely that the pro forma financial information will be misleading for the purpose for which it is intended;
 - (c) Evaluate the wording of the opinion prescribed by the relevant law or regulation, if any, to determine that the practitioner will likely be able to express the opinion so prescribed based on performing the procedures specified in this ISAE; (Ref: Para. A513–A524)
 - (d) Determine that the relevant law or regulation requires prior historical financial information of the entity and, if the event or transaction involves an acquisition, that of the acquiree to have been published in accordance with such law or regulation or to be included in the prospectus, and that such financial information be audited or reviewed; (Ref: Para. A9)
 - (ed) Where applicable, determine whether or not 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 or the source of any acquiree or divestee financial information; and
 - (fe) Obtain the agreement of the responsible party that it acknowledges and understands its responsibility for: (Ref: Para. A10–A11)
 - (i) Adequately disclosing and describing the applicable criteria to the intended users if these are not publicly available;
 - (ii) ~~Applying the process to e~~Compiling the pro forma financial information ~~in accordance with the applicable criteria on the basis stated~~; and
 - (iii) Providing the practitioner with:
 - a. Access to all information (including, where ~~possible~~ required, information of acquirees in a business combination), such as records, documentation and other material, relevant to the ~~process to proper~~ compilation of the pro forma financial information;
 - b. Additional information that the practitioner may request from the responsible party for the purpose of the engagement;

- c. Access to those within the entity and the entity's advisors from whom the practitioner determines it necessary to obtain evidence relating to the ~~process to proper~~ compilation of the pro forma financial information; and
- d. Where ~~possible required~~, access to appropriate individuals within acquirees in a business combination.

Assessing the Suitability of the Applicable Criteria

143. As part of assessing whether the applicable criteria are suitable, as required by ISAE 3000,⁷ the practitioner shall determine that they ~~encompass~~ include, at a minimum, that: (Ref: Para. A12)
- (a) The unadjusted financial information be extracted from an appropriate source;
 - (b) The pro forma adjustments be:
 - (i) Directly attributable to the event or transaction; (Ref: Para. A13)
 - (ii) Factually supportable; and (Ref: Para. ~~A8~~, A14)
 - (iii) Consistent with the entity's applicable financial reporting framework and its accounting policies under that framework; and (Ref: Para. A15–A16)
 - (c) Appropriate presentation be made and disclosures be provided to enable the intended users to understand the information conveyed. (Ref: Para. A1–A2, ~~A3944~~)
154. In addition, the practitioner shall assess whether the applicable criteria are:
- (a) Consistent, and do not conflict, with relevant law ~~and or~~ regulation; and
 - (b) Unlikely to result in pro forma financial information that is misleading.

Planning and Performing the Engagement

Materiality

165. When planning and performing the engagement, the practitioner shall consider materiality with respect to the ~~process to proper~~ compilation of the pro forma financial information. (Ref: Para. A17–A1~~89~~)

Obtaining an Understanding of the Responsible Party's ~~Process to~~ Compilation of the Pro Forma Financial Information and Other Engagement Circumstances

176. The practitioner shall obtain an understanding of: (Ref: Para. A1~~920~~)
- (a) The event or transaction in respect of which the pro forma financial information is being compiled;
 - (b) The ~~process applied by the~~ responsible party's ~~to~~ compilation of the pro forma financial information; (Ref: Para. A2~~04~~–A2~~13~~)

⁷ ISAE 3000, paragraph 19

- (c) The nature of the entity and any acquiree or divestee, including: (Ref: Para. A2~~24~~–A2~~35~~)
 - (i) Their operations;
 - (ii) Their assets and liabilities; and
 - (iii) The way they are structured and how they are financed;
- (d) Relevant industry, legal and regulatory, and other external factors pertaining to the entity and any acquiree or divestee; and (Ref: Para. A2~~46~~–A2~~68~~)
- (e) The applicable financial reporting framework and the accounting and financial reporting practices of the entity and of any acquiree or divestee, including their selection and application of accounting policies.

Evaluating ~~the Process Applied by the Responsible Party's to~~ Compilation of the Pro Forma Financial Information

- ~~187.~~ The practitioner shall determine whether the responsible party has: ~~(a) Used~~ an appropriate source of the unadjusted financial information; ~~and~~ (Ref: Para. A3, A2~~79~~–A2~~833~~)
19. If there is no audit or review report on the source, the practitioner shall perform procedures to be satisfied that the source is appropriate. (Ref: Para. A29–A30)
20. The practitioner shall determine whether the responsible party has (b) Appropriately extracted the unadjusted financial information from the source. (Ref: Para. A4)
- ~~218.~~ The practitioner shall determine whether: ~~(a) The~~ responsible party has appropriately identified the appropriate pro forma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration; and (Ref: Para. A3~~14~~)
22. (b) —The practitioner shall determine whether the pro forma adjustments are in accordance with the basis stated applicable criteria. This shall include determining whether the pro forma adjustments are: (Ref: Para. A5–A7, A13–A16, A35–A36)
- (a) Directly attributable to the event or transaction; (Ref: Para. A13)
 - (b) Factually supportable. If acquiree or divestee financial information is included in the pro forma adjustments and there is no audit or review report on the source of such financial information, the practitioner shall perform procedures to be satisfied that the financial information is factually supportable; and (Ref: Para. A14, A32–A35)
 - (c) Consistent with the entity's applicable financial reporting framework and its accounting policies under that framework. (Ref: Para. A15–A16)
- ~~2319.~~ The practitioner shall determine whether the calculations within the pro forma financial information are arithmetically accurate.
- ~~240.~~ If a modified audit opinion or review conclusion has may have been expressed with respect to either the source of the unadjusted financial information or the source of the acquiree or divestee financial information, or where a report containing an Emphasis of Matter paragraph has may have been issued with respect to such source; and In such circumstances, if the

relevant law or regulation does not prohibit the use of such a source, the practitioner shall evaluate:

- (a) The potential consequence on the ~~process to proper~~ compilation of the pro forma financial information; (Ref: Para. A3~~67~~)
- (b) What further action to take; and (Ref: Para. A3~~78~~)
- (c) Whether there is any effect on the practitioner's ability to report in accordance with the terms of the engagement, including any effect on the practitioner's report.

~~254.~~ If, on the basis of the procedures performed, the practitioner ~~concludes-identifies~~ that the responsible party has: ~~(Ref: Para. A17-A19)~~

- (a) Used a source of the unadjusted financial information that is not appropriate; or
- (b) Omitted a pro forma adjustment that should be included, or otherwise inappropriately applied a pro forma adjustment,

the practitioner shall discuss the matter with the responsible party. If the practitioner is unable to agree with the responsible party as to how the matter should be resolved, the practitioner shall evaluate what further action to take~~determine the implications for the practitioner's report.~~ (Ref: Para. A37)

Evaluating the Presentation of the Pro Forma Financial Information

~~262.~~ The practitioner shall evaluate ~~whether~~ the presentation of the pro forma financial information ~~is in accordance with the applicable criteria~~. This shall include consideration of:

- (a) The overall presentation and structure of the pro forma financial information, including whether it is clearly labeled to distinguish it from historical or other financial information; (Ref: Para. A1-A2)
- (b) Whether the pro forma financial information and related explanatory notes illustrate the impact of the event or transaction in a manner that is not misleading; ~~and~~ (Ref: Para. A3~~89-A40~~)
- (c) Whether appropriate disclosures are provided with the pro forma financial information to enable the intended users to understand the information conveyed; ~~and~~ (Ref: Para. A3~~94~~)
- (d) Whether the practitioner has become aware of any significant events subsequent to the date of the source of the unadjusted financial information that may require reference to, or disclosure in, the pro forma financial information. (Ref: Para. A40)

~~273.~~ The practitioner shall read and consider the other information included in the prospectus containing the pro forma financial information to identify material inconsistencies, if any, with the pro forma financial information. If, on reading the other information, the practitioner identifies a material inconsistency or becomes aware of a material misstatement of fact in that other information, the practitioner shall discuss the matter

with the responsible party. If correction of the matter is necessary and the responsible party refuses to do so, the practitioner shall take further appropriate action. (Ref: Para. A412)

Written Representations

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

- (a) The ~~process to compilation of~~ the pro forma financial information has identified all appropriate pro forma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration; (Ref: Para. A423)
- (b) The omission of any pro forma adjustments from the ~~process to compilation of~~ the pro forma financial information because they ~~do are not in accordance with the basis stated meet the applicable criteria~~ does not render the pro forma financial information misleading; and
- (c) The ~~process to compile the~~ pro forma financial information has been ~~appropriately applied properly compiled~~ to reflect all the significant effects of the event or transaction, and in a way that does not result in the pro forma financial information being misleading.

Forming the Opinion

295. The practitioner shall form an opinion on whether ~~the process to compile~~ the pro forma financial information has ~~been properly compiled, in all material respects, been applied~~ by the responsible party ~~on the basis stated in accordance with the applicable criteria~~. (Ref: Para. A5-A7, A434-A456)

3026. In order to form that opinion, the practitioner shall conclude as to whether the practitioner has obtained sufficient appropriate evidence about whether the ~~process applied by the responsible party compilation of the pro forma financial information~~ is free from material omissions or inappropriate application of any element thereof. That conclusion shall include an evaluation of whether the responsible party has adequately disclosed and described the applicable criteria if these are not publicly available. (Ref: Para. A467-A478)

Form of Opinion

Unmodified Opinion

3127. The practitioner shall express an unmodified opinion when the practitioner concludes that ~~the process to compile~~ the pro forma financial information has, ~~in all material respects,~~ been ~~applied properly compiled~~ by the responsible party ~~on the basis stated in accordance with the applicable criteria~~.

Modified Opinion

328. In many jurisdictions, the relevant law or regulation ~~will not permit precludes~~ publication of a prospectus that contains a modified opinion with regard to the ~~process to proper compilation of~~ the pro forma financial information. Where this is the case and the practitioner concludes that a modified opinion is ~~nevertheless~~ appropriate ~~in accordance with ISAE 3000~~, the

practitioner shall discuss the matter with the responsible party. If the responsible party does not agree to make the necessary changes, the practitioner shall:

- (a) ~~w~~Withhold the report;
- (b) ~~w~~Withdraw from the engagement; or
- (c) ~~e~~Consider seeking legal advice.

~~3329~~. In ~~the~~ rare circumstances, ~~where~~ the relevant law or regulation ~~permits~~ may not preclude publication of a prospectus that contains a modified opinion with regard to the ~~process to proper compilation of~~ the pro forma financial information, ~~and~~ In such circumstances, if the practitioner determines that a modified opinion is appropriate in accordance with ISAE 3000, the practitioner shall apply the requirements in ISAE 3000⁸ regarding modified opinions.

Emphasis of Matter Paragraph

~~340~~. In some circumstances, the practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the pro forma financial information or the accompanying explanatory notes, ~~that~~ This would be the case when, in the practitioner's opinion, the matter is of such importance that it is fundamental to users' understanding of the ~~process to proper compilation of~~ the pro forma financial information. In such circumstances, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report provided that the practitioner has obtained sufficient appropriate evidence that the matter does not ~~cause the process to compile affect the proper compilation of the~~ pro forma financial information ~~not to be applied in accordance with the applicable criteria~~. Such a paragraph shall refer only to information presented or disclosed in the pro forma financial information or the accompanying explanatory notes.

Preparing the Assurance Report

- ~~354~~. The practitioner's report shall include the following basic elements: (Ref: Para. A~~535~~)
- (a) A title that clearly indicates that the report is an independent assurance report; (Ref: Para. A~~489~~)
 - (b) An addressee(s), as agreed in the terms of engagement; (Ref: Para. A~~4950~~)
 - (c) Introductory paragraphs that identify: (Ref: Para. A~~504~~)
 - (i) The pro forma financial information;
 - (ii) The source of the unadjusted financial information, and whether or not an audit or review report on such a source has been published;
 - (iii) The period covered by, or the date of, the pro forma financial information; and

⁸ ISAE 3000, paragraphs 51–52

- (iv) A reference to the applicable criteria in accordance with which the ~~process to compilation of~~ the pro forma financial information has been ~~applied~~performed, and the source of the criteria;
- (d) A ~~description of the responsible party's responsibilities, including a~~ statement that the responsible party is responsible for ~~applying the process to compile~~ the pro forma financial information ~~in accordance with the applicable criteria on the basis stated~~;
- (e) A description of the practitioner's responsibilities, including statements that:
- (i) The practitioner's responsibility is to express an opinion about whether ~~the responsible party's process to compile~~ the pro forma financial information has been ~~applied in accordance with the applicable criteria properly compiled by the responsible party on the basis stated~~;
- (ii) For purposes of this engagement:
- a. The practitioner is not responsible for updating or reissuing any reports or opinions on any financial information used in the ~~process to compilation of~~ the pro forma financial information; and
- b. ~~(iii)~~ The practitioner has not performed an audit or review of the pro forma financial information ~~itself nor, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information; and, accordingly, does not express an opinion on the pro forma financial information;~~
- (f) A statement that the engagement was performed in accordance with ISAE 3420, *Assurance Reports on the ~~Process to Proper~~ Compilation of Pro Forma Financial Information Included in a Prospectus*, which requires that the practitioner comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether ~~the responsible party has applied the process to compile~~ the pro forma financial information ~~has been properly compiled by responsible party in accordance with the applicable criteria on the basis stated~~;
- (g) A statement that under the standard, pro forma financial information is described as being properly compiled when the responsible party has, in all material respects, performed the compilation on the basis stated;
- (hg) A summary of the practitioner's procedures; Statements that:
- (i) A reasonable assurance engagement to report on the proper compilation of pro forma financial information involves performing procedures to obtain evidence about whether:
- The responsible party has an appropriate basis for presenting the significant effects directly attributable to the event or transaction;
 - The related pro forma adjustments give appropriate effect to that identified basis; and

- The pro forma column reflects the proper application of those adjustments to the unadjusted financial information;
- (ii) The procedures selected depend on the practitioner’s judgment, having regard to the practitioner’s understanding of the nature of the entity, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances; and
- (iii) The engagement also involves evaluating the overall presentation of the pro forma financial information;
- (ih) The practitioner’s opinion ~~on the proper application of the process to compile as to whether~~ the pro forma financial information has been properly compiled on the basis stated; (Ref: Para. A512–A524)
- (ji) The practitioner’s signature;
- (kj) The date of the report; and
- (lk) The ~~address location in the jurisdiction~~ where the practitioner ~~maintains the office that has responsibility for the engagement practices~~.

Application and Other Explanatory Material

Purpose of Pro Forma Financial Information Included in a Prospectus (Ref: Para. 4, 143(c), 262)

- A1. In most cases, pro forma financial information is presented in columnar format consisting of (a) the unadjusted financial information; (b) the pro forma adjustments; and (c) the resulting pro forma financial information. It is accompanied by related explanatory notes that often disclose the matters set out in paragraph A3941.
- A2. Different presentations of pro forma financial information may be included in the prospectus depending on the nature of the event or transaction and how the responsible party intends to illustrate the impact of such event or transaction on the unadjusted financial information of the entity. For example, ~~where the entity is may~~ acquireing a number of businesses prior to an initial public offering. In such circumstances, the responsible party may choose to present a pro forma net asset statement to illustrate the impact of the acquisitions on the entity’s financial position and key ratios such as debt to equity ~~had as if~~ the acquired businesses had been combined with the entity at an earlier date. The responsible party may also choose to present a pro forma income statement to illustrate what the results of operations might have been for the period ended on that date. In such cases, the nature of the pro forma financial information may be described by titles such as “Statement of Pro Forma Net Assets as at December 31, 20X1” and “Pro Forma Income Statement for the Year Ended December 31, 20X1.”

Process to Compilation of Pro Forma Financial Information (Ref: Para. 5)

Source of the Unadjusted Financial Information (Ref: Para. 5, 17(a))

- A3. In ~~most~~many cases, the source of the unadjusted financial information will be published financial information such as annual or interim financial statements.

Extracting the Unadjusted Financial Information (Ref: Para. 5, 17(b))

- A4. Depending on how the responsible party chooses to illustrate the impact of the event or transaction, the unadjusted financial information may comprise either:
- ~~One~~One or more ~~unabridged~~ single financial statements, such as a statement of financial position and a statement of comprehensive income; or
 - ~~Financial~~Financial information that is appropriately condensed from ~~unabridged a complete set of~~ financial statements, ~~such as for example~~, a statement of net assets.

Definitions

Applicable Criteria (Ref: Para. 1~~9~~0(a), ~~18(b)~~, ~~25~~)

- A5. Where established criteria do not exist, the responsible party may develop the applicable criteria, for example, based on practice in a particular industry or the criteria of a jurisdiction ~~which that~~ has developed established criteria, and disclose that fact.
- A6. The applicable criteria will be ~~considered~~considered suitable in the circumstances if they meet the benchmarks set out in paragraph 1~~4~~3.

Basis Stated (Ref: Para. 11(b))

- A7. Although the applicable criteria specify how the ~~process to compilation of~~ the pro forma financial information is to be ~~applied performed~~, the responsible party may include some additional detail in the accompanying explanatory notes to describe how the applicable criteria have been applied in ~~the context of illustrating the effects of~~ the particular event or transaction. This may include, for example, the date or period for which the pro forma financial information is being presented. The overall presentation of the pro forma financial information, including introductory and explanatory notes, may be referred to as being compiled on the basis stated.

Unadjusted Financial Information (Ref: Para. 10(g), 13(b)(ii))

- ~~A8. Unadjusted financial information used in the process to compile pro forma financial information will, in most cases, be historical in nature. Some jurisdictions may, nevertheless, permit the use of profit forecasts as the unadjusted financial information. However, as an engagement to be covered by this ISAE requires the relevant pro forma adjustments to be capable of being factually supported, where proposed adjustments are based on future anticipated outcomes related to the profit forecasts, they would not be factually supportable.~~

Engagement Acceptance

Capabilities and Competence to Perform the Engagement (Ref: Para. 132(a))

A89. The IESBA Code⁹ 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~~ In the context of this requirement of the IESBA Code, relevant capabilities and competence to perform the engagement also include matters such as the following:

- Knowledge and experience of the industry in which the entity operates;
- An understanding of the relevant securities laws and regulations and related developments;
- An understanding of the listing requirements of the relevant securities exchange and of capital market transactions such as mergers, acquisitions and securities offerings; ~~and~~
- Familiarity with the process of preparing a prospectus and listing securities on the securities exchange; and
- Knowledge of the financial reporting frameworks used in the preparation of the source of the unadjusted financial information and, if applicable, of the acquiree's financial information.

Prior History of Audit or Review (Ref: Para. 13(d))

A9. Relevant law or regulation ordinarily requires the entity to have published prior historical financial information (and if the event or transaction involves an acquisition, the acquiree's prior historical financial information), whether for one or more periods, in accordance with such law or regulation, or to include such financial information in the prospectus. Relevant law or regulation also ordinarily requires such prior historical financial information to be audited or reviewed, even if it does not require the source of the unadjusted financial information itself to have been audited or reviewed for purposes of compiling the pro forma financial information. There is an insufficient basis for the practitioner to undertake the engagement if the prior historical financial information of the entity or, if the event or transaction involves an acquisition, that of the acquiree has never been subject to an audit or a review.

The Responsible Party's Responsibilities (Ref: Para. 132(fe))

A10. An engagement in accordance with this ISAE is conducted on the premise that the responsible party has acknowledged and understands that it has the responsibilities set out in paragraph 132(fe). 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

⁹ IESBA Code, paragraphs 130.1–130.3

definition of such responsibilities. An assurance engagement to report on the ~~process to proper compilation of~~ pro forma financial information is based on the assumption that:

- (a) The practitioner's role does not involve taking responsibility for the ~~process to compilation of~~ such information; and
- (b) The practitioner has a reasonable expectation of obtaining the information necessary for the engagement ~~insofar as the responsible party is able to provide or procure it.~~

Accordingly, this premise is fundamental to the conduct of the engagement. To avoid misunderstanding, agreement is reached with the responsible party that it acknowledges and understands that it has such responsibilities as part of agreeing and recording the terms of the engagement as required by ISAE 3000.¹⁰

- A11. If law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need not record them in a written agreement. However, except for the fact the written agreement would state that such law or regulation applies and that the responsible party acknowledges and understands its responsibilities as set out in paragraph 132(fe).

Assessing the Suitability of the Applicable Criteria (Ref: Para. 143)

- A12. Because pro forma financial information, by its nature, ~~is does~~ not comprise a complete set of general purpose financial statements, it is important that the criteria applied in compiling the pro forma financial information are appropriate and transparent.

Directly Attributable Adjustments (Ref: Para. 143(b)(i), 2218(ab))

- A13. ~~In order to avoid the pro forma financial information reflecting matters that do not arise solely as a result of the event or that are not an integral part of the transaction, it~~ is necessary that the pro forma adjustments be directly attributable to the event or transaction to avoid the pro forma financial information reflecting matters that do not arise solely as a result of the event or that are not an integral part of the transaction. Directly attributable adjustments exclude those that relate to future events or are dependent on actions to be taken once the transaction has been completed, even if such actions are key to the entity entering into the transaction (for example, closing of redundant production sites after an acquisition).

Factually Supportable Adjustments (Ref: Para. 143(b)(ii), 2218(b))

- A14. It is also necessary that the pro forma adjustments be factually supportable in order to provide a reliable basis for the pro forma financial information. While the nature of the supporting facts will vary with the circumstances, they are nevertheless capable of objective determination. Sources of factual support for the pro forma adjustments include, for example:

¹⁰ ISAE 3000, paragraph 10

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

Adjustments Consistent with the Entity's Applicable Financial Reporting Framework and Its Accounting Policies under that Framework (Ref: Para. ~~110~~(db)(ii), ~~143~~(b)(iii), ~~2218~~(cb))

A15. For the pro forma financial information to be meaningful, it is necessary that the pro forma adjustments be consistent with the entity's applicable financial reporting framework and its accounting policies under that framework. In the context of a business combination, for example, the ~~process to proper~~ compilation of the pro forma financial information involves consideration of such matters as:

- Whether differences exist between the acquiree's accounting policies and those of the entity; and
- Whether accounting policies for ~~specific types of~~ transactions ~~undertaken by in~~ the acquiree's ~~financial information with~~ which the entity has not previously ~~entered into had to deal~~ are policies that the entity would have adopted for such ~~types of~~ transactions under its applicable financial reporting framework, taking into account the entity's particular circumstances.

A16. A consideration of the appropriateness of the entity's accounting policies may also be necessary in some circumstances. For example, ~~if~~, as part of the event or transaction, the entity ~~may is~~ proposing to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:

- ~~Whether~~ Whether the responsible party has adopted appropriate accounting policies to account for such financial instruments under its applicable financial reporting framework; and
- ~~Whether~~ Whether it has appropriately applied such policies in the ~~process to compilation of~~ the pro forma financial information.

Planning and Performing the Engagement

Materiality (Ref. Para. ~~5~~, 165, 21)

~~A17. In an engagement to report on whether the process to compile pro forma financial information has been properly applied, an omission or the inappropriate application of an element of the process is material if it results in pro forma financial information that is misleading to the intended users of the information.~~

A179. Materiality with regard to the process to proper compilation of the pro forma financial information does not depend on a single quantitative measure. Instead, it depends on the size and nature of the omission or inappropriate application of an element of the process compilation as described in paragraph A18, whether or not intentional. Judgment about these aspects of size and nature will, in turn, depend on such matters as:

- ~~in~~ The context of the event or transaction;
- ~~the~~ The purpose for which the pro forma financial information is being compiled; and
- ~~the~~ The related engagement circumstances.

The determining factor could be the size or the nature of the matter, or a combination of both.

A18. ~~Examples of matters that may cause~~ The process to compile the pro forma financial information may not to be considered properly applied include compiled when there is evidence of, for example:

- Use of an inappropriate source for the unadjusted financial information.
- Incorrect extraction of the unadjusted financial information from an appropriate source.
- In relation to adjustments, the misapplication of accounting policies or the failure of the adjustments to be consistent with the entity's accounting policies.
- Failure to make an adjustment required by the applicable criteria.
- Making an adjustment that is not in accordance with the applicable criteria.
- A mathematical or clerical mistake in the calculations within the pro forma financial information.
- Inadequate, incorrect or omitted disclosures.

Obtaining an Understanding of the Responsible Party's Process to Compilation of the Pro Forma Financial Information and Other Engagement Circumstances (Ref. Para. 176)

A1920. The practitioner may obtain this understanding through a combination of procedures such as:

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

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

The ~~Process to~~ Compilation of the Pro Forma Financial Information (Ref: Para. 176(b))

A204. Matters ~~on-in respect of~~ which the practitioner may obtain an understanding with regard to the ~~process to-compile~~ of the pro forma financial information include, for example:

- The source of the unadjusted financial information used by the responsible party.
- The steps taken by the responsible party to:
 - Extract the unadjusted financial information from the source.
 - Identify the appropriate pro forma adjustments, for example, how the responsible party has obtained acquiree financial information in compiling the pro forma financial information.
- The responsible party's competence in ~~applying the process to-~~ compiling pro forma financial information.
- The nature and extent of oversight by the responsible party of other entity personnel involved in the ~~process to-compile~~ of the pro forma financial information.
- The responsible party's approach to identifying appropriate disclosures to support the pro forma financial information.

A212. In a business combination or divestment, areas that may give rise to complexity in the ~~process to-compile~~ of the pro forma financial information include allocations of income, overheads, and assets and liabilities among or between the relevant businesses. Accordingly, it is important for the practitioner to understand the responsible party's approach and criteria for such allocations and that the explanatory notes accompanying the pro forma financial information disclose these matters.

~~A23. In contrast to financial statements prepared periodically by the responsible party, the process to compile the pro forma financial information is undertaken solely for purposes of the prospectus. Relevant controls in the latter case will therefore likely be much simpler and much more limited in scope than in the former. These may, for example, be limited to review by the responsible party of relevant analyses and worksheets prepared by entity personnel involved in the process to compile the pro forma financial information, and oversight by the responsible party of such personnel.~~

Nature of the Entity and Any Acquiree or Divestee (Ref: Para. 176(c))

A224. An acquiree may be an incorporated entity or a separately identifiable unincorporated operation within another entity such as a division, branch or line of business. A divestee may be an incorporated business entity such as a subsidiary or joint venture, or a

separately identifiable unincorporated operation within the entity such as a division, branch or line of business.

- A235. The practitioner may have all or part of the required understanding of the entity and any acquiree or divestee, and their respective environments, if the practitioner has audited or reviewed their financial information.

Relevant Industry, Legal and Regulatory, and Other External Factors (Ref: Para. 176(d))

- A246. 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.

- A257. Relevant legal and regulatory factors include the legal and regulatory environment, which encompasses, among other matters, the applicable financial reporting framework in accordance with which the entity or, if applicable, the acquiree prepares its periodic financial information, and the legal and political environment. Examples of matters the practitioner may consider include:

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

- A268. Examples of other external factors affecting the entity and, if applicable, the acquiree or divestee that the practitioner may consider include the general economic conditions, interest rates and availability of financing, and inflation or currency revaluation.

Evaluating ~~the Process Applied by the Responsible Party's~~ to Compilation of the Pro Forma Financial Information

Source of the Unadjusted Financial Information (Ref: Para. ~~187(a)~~)

~~A29. As paragraph 13 indicates, a necessary criterion for applying the process to compile pro forma financial information is that an appropriate source be used for the unadjusted financial information, consistent with the purpose of the illustration. In determining whether the source used by the responsible party is appropriate, the practitioner is obtaining evidence to determine whether this criterion has been satisfied by the responsible party in applying the process, and not for the purpose of reporting on the source or on the pro forma financial information itself.~~

A27. Factors that may affect the appropriateness of the source include whether there is an audit or review report on the source and whether the source:

- Is permitted or specifically prescribed by the relevant law or regulation, or permitted by the relevant securities exchange with which the prospectus is to be filed.
- Is clearly identifiable.
- ~~• Is credible, for example, whether there is a published audit or review report on the source.~~
- Represents a reasonable starting point for compiling the pro forma financial information in the context of the event or transaction, including whether it is at an appropriate date or covers an appropriate period.
- Is used as such under normal market custom and practice.

~~A2830.~~ If an ~~published~~ audit or review report on the source has been issued by another practitioner, the need by the practitioner reporting under this ISAE for an understanding of the entity and its accounting and financial reporting practices is not diminished. In the circumstances, the practitioner may need to consider whether the practitioner can acquire sufficient knowledge of these matters to perform the procedures necessary to report under this ISAE.

No Audit or Review Report on the Source of the Unadjusted Financial Information (Ref: Para. 19)

~~A2931.~~ If Where there is no ~~published~~ audit or review report on the source, it ~~may be is~~ necessary for the practitioner to perform procedures in relation to the ~~credibility-appropriateness~~ of that source. Factors that may affect the nature and extent of these procedures include, for example:

- ~~• Whether an audit or review report on the source has nevertheless been issued by the practitioner or another practitioner, whether or not in the same firm, even if not published.~~
- Whether the practitioner has previously audited or reviewed the entity's historical financial information, and the practitioner's knowledge of the entity from such engagement.

- Whether the entity's financial information is subject to periodic review by the practitioner, for example, for purposes of meeting regulatory filing requirements.

A302. ~~In most cases, t~~The entity's financial statements for the period immediately preceding that of the source of the unadjusted financial information will have been audited or reviewed, consistent with the precondition in paragraph 13(d), even if the source of the unadjusted financial information itself is not. For example, the source may be interim financial statements that have not been audited or reviewed whereas the entity's financial statements for the immediately preceding fiscal year may have been audited. In such a case, procedures that the practitioner may perform, having regard to the factors in paragraph A2931, in relation to the credibility-appropriateness of that ~~the~~ source include:

- Inquiring of the responsible party about:
 - The process by which the source has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled.
 - Whether all transactions have been recorded.
 - Whether the source has been prepared in accordance with the entity's accounting policies.
 - Whether there have been any changes in accounting policies from the immediately preceding prior-most recent audited or reviewed period and, if so, how such changes have been dealt with.
 - The responsible party's assessment of the risk that the source may be materially misstated as a result of fraud.
 - The effect of changes in the entity's business activities and operations.
- Considering the findings of the audit or review of the immediately preceding annual or interim financial information and whether these might indicate any issues with the preparation of the source.
- Performing procedures to corroborate some or all the information provided by the responsible party in response to the practitioner's inquiries, such as when the responses appear inconsistent with the practitioner's understanding of the entity or the engagement circumstances.
- Comparing the source with the corresponding prior period financial information and, as ~~appropriate~~ applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the responsible party.

A33. ~~In the rare circumstances where the entity's financial information has never been audited or reviewed, the practitioner may need to perform additional procedures that may include, for example:~~

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

- ~~• Obtaining corroborative evidence regarding the responsible party's responses to the practitioner's inquiries.~~
- ~~• Discussing with the responsible party regarding whether the recognition of income and expenses has taken place in the appropriate periods.~~

Pro Forma Adjustments

Identification of appropriate pro forma adjustments (Ref: Para. ~~218(a)~~)

A314. Informed by the practitioner's understanding of the ~~process to responsible party's compilation of~~ the pro forma financial information and other engagement circumstances, the practitioner may obtain evidence regarding whether the responsible party has appropriately identified the necessary pro forma adjustments through a combination of procedures such as:

- Evaluating the reasonableness of the responsible party's approach to identifying the appropriate pro forma adjustments, for example, the method used in identifying appropriate allocations of income, overheads, assets and liabilities among the relevant businesses.
- Inquiring of relevant parties within an acquiree regarding their approach to extracting the acquiree financial information.
- Evaluating specific aspects of the relevant contracts, agreements or other documents.
- Inquiring of the entity's advisors regarding specific aspects of the event or transaction and related contracts and agreements that are relevant to the identification of appropriate adjustments.
- Evaluating relevant analyses and worksheets prepared by the responsible party and other entity personnel involved in the ~~process to compilation of~~ the pro forma financial information.
- Obtaining evidence of the responsible party's oversight of other entity personnel involved in the ~~process to compilation of~~ the pro forma financial information.
- Analytical procedures.

Factual support for any acquiree or divestee financial information included in the pro forma adjustments (Ref: Para. ~~1822(b)~~)

A325. In the case of a divestment, determining whether the divestee's financial information will be derived from the source of the unadjusted financial information, which will often be audited or reviewed. Such source will therefore provide the basis for the practitioner to determine whether there is factual support for the divestee financial information. Where the source of the unadjusted financial information has not been audited or reviewed of the acquiree or divestee is factually supportable, the practitioner may refer to the guidance in paragraphs A2930–A303 in ~~relation to the financial~~

~~information of the acquiree or determining whether the~~ divestee financial information is factually supportable.

A33. In the case of an acquisition, relevant law or regulation often may require the source of the acquiree financial information to be audited or reviewed for purposes of the prospectus. In such circumstances, the acquiree financial information will be factually supportable.

A34. Where the source of the acquiree financial information has not been audited or reviewed, the acquiree's financial statements for the immediately preceding period will have been audited or reviewed consistent with the precondition in paragraph 13(d). In such a case, procedures that the practitioner may perform in relation to whether the acquiree financial information is factually supportable include:

- Inquiring of the acquiree's management about:
 - The process by which the source has been prepared and the reliability of the underlying accounting records to which the source is agreed or reconciled.
 - Whether all transactions have been recorded.
 - Whether the source has been prepared in accordance with the acquiree's accounting policies.
 - Whether there have been any changes in accounting policies from the most recent audited or reviewed period and, if so, how such changes have been dealt with.
 - The assessment of the risk by the acquiree's management that the source may be materially misstated as a result of fraud.
 - The effect of changes in the acquiree's business activities and operations.
- Considering the findings of the audit or review of the immediately preceding annual or interim financial information and whether these might indicate any issues with the preparation of the source.
- Performing procedures to corroborate some or all the information provided by the acquiree's management in response to the practitioner's inquiries, such as when the responses appear inconsistent with the practitioner's understanding of the acquiree or the engagement circumstances.
- Comparing the source with the corresponding prior period financial information and, as applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the acquiree's management.

A356. In some cases, Where it may is not be practicable for the practitioner to obtain evidence to conclude that the financial information of an acquiree is factually supportable. ~~In such circumstances,~~ the practitioner may need to discuss the matter with the entity's responsible party and consider the implications for the practitioner's report.

Modified Audit Opinion or Review Conclusion, or Emphasis of Matter Paragraph, with Respect to the Source of the Unadjusted or Acquiree or Divestee Financial Information

Potential consequence (Ref: Para. 240(a))

A367. Not all modified audit opinions, review conclusions or Emphasis of Matter paragraphs with respect to either the source of the unadjusted financial information or the source of the acquiree or divestee financial information may necessarily ~~have a consequence on affect~~ the ~~process to proper compilation of~~ the pro forma financial information. For example, ~~if a qualified audit opinion with respect to the source of the unadjusted financial information relates to may have been expressed on the entity's financial statements because of~~ the non-disclosure of remuneration for those charged with governance as required by the applicable financial reporting framework. ~~If this is the case and these financial statements are used as the source of the unadjusted financial information, this such qualification~~ may have no consequence on the ~~process to proper compilation of~~ pro forma net asset and income statements.

Further action (Ref: Para. 240(b), 25)

A378. Further action that the practitioner may take includes, for example:

- In relation to the requirement in paragraph 24(b):
 - Discussing the matter with the responsible party.
 - Where possible under relevant law or regulation, Mmaking a reference in the practitioner's report to the modified audit opinion, review conclusion, or the Emphasis of Matter paragraph, where, in the practitioner's professional judgment, the matter is of sufficient relevance and importance to users' understanding of the pro forma financial information.
- In relation to the requirement in paragraph 25, where possible under relevant law or regulation, modifying the practitioner's opinion.
- Where possible under relevant law or regulation, Wwithholding the report or withdrawing from the engagement.
- Seeking legal advice ~~from the practitioner's legal counsel regarding the implications for the engagement.~~

Evaluating the Presentation of the Pro Forma Financial Information

Avoidance of Association with Misleading Financial Information (Ref: Para. 262(b))

A389. The IESBA Code requires that a practitioner not be associated with information where the practitioner believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information furnished recklessly; or

- (c) Omits or obscures information required to be included where such omission or obscurity would be misleading.¹¹

Disclosures Accompanying the Pro Forma Financial Information (Ref: Para. 143(c), 262(c))

A394. Appropriate disclosures may include matters such as:

- The nature and purpose of the pro forma financial information, including the nature of the event or transaction, and the date as of, or the period for, which the responsible party has compiled the pro forma financial information;
- The source of the unadjusted financial information, and whether or not an audit or review report on such a source has been published;
- The pro forma adjustments, including a description and explanation of each adjustment. This includes, in the case of acquiree or divestee financial information, the source of such information and whether or not an audit or review report on such a source has been published;
- If not publicly available, a description of the applicable criteria in accordance with which the ~~process to compilation of~~ the pro forma financial information has been applied performed; and
- A statement to the effect that the pro forma financial information has been compiled for illustrative purposes only and that, because of its nature, it does not represent the entity's actual financial position, financial performance, or cash flows.

Relevant law or regulation may require these or other specific disclosures.

Consideration of Significant Subsequent Events (Ref: Para. 26(d))

- A40. As the practitioner is not reporting on the source of the unadjusted financial information, there is no requirement for the practitioner to perform procedures to identify events after the date of the ~~eat~~ source that require adjustment of, or disclosure in, such source. Nevertheless, it is necessary for the practitioner to evaluating the presentation of the pro forma financial information involves a consideration of whether the practitioner has become aware, through performing the procedures under this ISAE or otherwise, of any significant events subsequent to the date of the source of the unadjusted financial information have come to the practitioner's attention that may require reference to, or disclosure in, the explanatory notes to the pro forma financial information to avoid the latter being misleading. Such consideration is based on performing the procedures under this ISAE or the practitioner's knowledge of the entity and the engagement circumstances. For example, after the date of the source of the unadjusted financial information, the entity may have entered into a capital transaction involving the conversion of its convertible debt into equity, non-disclosure of which could result in the pro forma financial information being misleading.

¹¹ IESBA Code, paragraph 110.2

Material Inconsistency with Other Information (Ref: Para. 273)

A412. 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 includes, for example:

- Where possible under relevant law or regulation:
 - Describing the material inconsistency in the practitioner’s report.
 - Modifying the practitioner’s opinion.
 - Withholding the report or Withdrawing from the engagement ~~where this is possible under the relevant law or regulation.~~
- Seeking legal advice.

Written Representations (Ref: Para. 284(a))

A423. ~~Where the~~ In some circumstances, ~~involve the~~ types of transactions involved may that require the responsible party to use accounting policies for the pro forma adjustments that the entity has not previously had to articulate because it had no relevant transactions. In such a case, the practitioner may request the responsible party to expand the written representations to include confirmation that such accounting policies constitute the entity’s adopted policies for such types of transactions.

Forming the Opinion

Assurance on Further Matters Required by the Relevant Law or Regulation (Ref: Para. 295)

A434. Relevant law or regulation may require the practitioner to express an opinion on matters other than ~~whether the process to compile the~~ proper compilation of the pro forma financial information ~~has, in all material respects, been applied by the responsible party in accordance with the applicable criteria.~~ In some of these circumstances, it may not be necessary for the practitioner to perform additional procedures. For example, Tthe relevant law or regulation may, ~~for example,~~ require the practitioner to express an opinion about whether the basis on which the responsible party has compiled the pro forma financial information is consistent with the entity’s accounting policies. Compliance with the requirements in paragraphs 19 and 2248(cb) of this ISAE, ~~which includes determining whether the pro forma adjustments are consistent with the entity’s accounting policies,~~ provides a basis for expressing such an opinion. ~~Accordingly, the practitioner need not perform additional procedures in such a case.~~

A445. In other circumstances, ~~Where the relevant law or regulation requires the practitioner to express an opinion on other matters related to the process to compile the pro forma financial information, this may require~~ the practitioner may need to perform additional procedures. The nature and extent of such additional procedures will vary with the nature of these other matters on which the relevant law or regulation requires the practitioner to express an opinion.

Statement of the Practitioner’s Responsibility for the Report

A456. The relevant law or regulation may require the practitioner to include in the practitioner’s report an explicit statement ~~of the practitioner’s asserting or confirming the practitioner’s responsibility for the practitioner’s report, as distinct from the description of the practitioner’s responsibilities in the practitioner’s report required by this ISAE.~~ The inclusion of such an additional legal or regulatory statement in the practitioner’s report is not incompatible with the requirements of this ISAE.

Disclosure of the Applicable Criteria (Ref: Para. 3026)

A467. The responsible party need not repeat in the explanatory notes accompanying the pro forma financial information any criteria that are prescribed by the relevant law or regulation, or promulgated by an authorized or recognized standard-setting organization. Such criteria will be publicly available as part of the reporting regime and are therefore implicit ~~to in~~ the ~~process to responsible party’s compilation of~~ the pro forma financial information.

A478. Where the responsible party has developed any specific criteria, it is necessary that those criteria be disclosed so that users may obtain a proper understanding of the ~~process to compilation of~~ the pro forma financial information ~~by the responsible party.~~

Preparing the Assurance Report

Title (Ref: Para. 351(a))

A489. A title indicating that the report is the report of an independent practitioner, for example, “Independent Practitioner’s Assurance Report on the ~~Process to 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 3000.¹² This distinguishes the report of the independent practitioner from reports issued by others.

Addressee(s) (Ref: Para. 351(b))

A4950. 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 Paragraphs (Ref: Para. 345(c))

A504. As the pro forma financial information will be included in a prospectus that contains other information, the practitioner may consider, if the form of presentation allows, including a reference that identifies the section where the pro forma financial information is presented. This helps readers identify the pro forma financial information to which the practitioner’s report relates.

¹² ISAE 3000, paragraph 4

Wording of Opinion (Ref: Para. ~~31(h)~~)

~~A52. Because describing pro forma financial information as being properly compiled¹³ means that the responsible party has, in all material respects, applied the process to compile the pro forma financial information in accordance with the applicable criteria, the practitioner may express the opinion in terms of either:~~

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

Wording of Opinion Prescribed by Law or Regulation (Ref: Para. ~~132~~(c), ~~354~~(h))

~~A513.~~ The relevant law or regulation in some jurisdictions may prescribe the wording of the practitioner's opinion in terms other than those specified in ~~paragraph A52 this ISAE~~. Where this is the case, it may be necessary for the practitioner to exercise judgment to determine whether performing the procedures set out in this ISAE would enable the practitioner to express the opinion in the ~~prescribed~~ wording prescribed by law or regulation, or whether further procedures would be necessary.

~~A524.~~ Where the practitioner concludes that performing the procedures set out in this ISAE would be sufficient to enable the practitioner to express the opinion in the ~~prescribed~~ wording prescribed by law or regulation, it may be appropriate to regard this wording as being generally equivalent to the wording of the opinion ~~in the terms~~ specified in ~~paragraph A52 this ISAE~~.

Illustrative Report (Ref: Para. ~~354~~)

~~A535.~~ A practitioner's report with an unmodified opinion is set out in the Appendix.

¹³ ~~See paragraph 5.~~

Appendix

(Ref: Para. A535)

Illustration of a Practitioner's Report with an Unmodified Opinion

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT ON THE ~~PROCESS TO COMPILE PROPER COMPILATION OF~~ PRO FORMA FINANCIAL INFORMATION

[Appropriate Addressee(s)]

Report on the Proper Compilation of Pro Forma Financial Information

We have completed our assurance engagement to report on whether the ~~process applied by pro forma financial information of~~ ABC Company ~~(the company) to has been properly compiled by [the responsible party]~~. ~~†~~The pro forma financial information, ~~consisting~~ of [the pro forma net asset statement as at [date]], [the pro forma income statement for the period ended [date]], ~~and~~ the pro forma cash flow statement for the period ended [date], and related notes [as set out on pages xx–xx of the prospectus issued by the company]. The applicable criteria in accordance with which ~~this process [the responsible party] has performed the compilation has been applied~~ are [specified in [Securities Regulation XX]/described in [Note X]].

The pro forma financial information has been compiled by ~~management [the responsible party]~~ to illustrate the impact of the [event or transaction] [set out in [Note Y] on the [company's financial position as at that date] [and its financial performance [and cash flows] for the period then ended] as if the [event or transaction] had taken place at [date]. As part of this process, information about the company's [financial position], [financial performance] [and cash flows] has been extracted by [the responsible party] from the company's financial statements [for the period ended [date]], on which [[an audit]/[a review] report]/[no audit or review report] has been published.¹⁴ Because of its nature, the pro forma financial information does not represent the company's actual [financial position], [financial performance], [or cash flows].

Management's [The Responsible Party's] Responsibility for the Pro Forma Financial Information

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

Practitioner's Responsibilities

Our responsibility is to express an opinion [, as required by [Securities Regulation XX],] about whether ~~the process to compile~~ the pro forma financial information has been properly compiled applied by [the responsible party] management in accordance with the applicable criteria on the basis stated.

¹⁴ Where the audit or review report has been modified, reference may be made to where the modification has been described in the prospectus.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Reports on the ~~Process to Proper~~ Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board. This standard requires that ~~we the practitioner~~ comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether the responsible party has applied the process to compile the pro forma financial information has been properly compiled by [the responsible party] in accordance with the applicable criteria on the basis stated. Under the standard, pro forma financial information is described as being properly compiled when [the responsible party] has, in all material respects, performed the compilation on the basis stated.

A reasonable assurance engagement to report on the proper compilation of pro forma financial information involves performing procedures to obtain evidence about whether:

- [The responsible party] has an appropriate basis for presenting the significant effects directly attributable to the event or transaction;
- The related pro forma adjustments give appropriate effect to that identified basis; and
- The pro forma column reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

Our procedures included:

- ~~• Making inquiries of management regarding the process management has applied to compile the pro forma financial information;~~
- ~~• Evaluating whether management has used an appropriate source of the unadjusted financial information in compiling the pro forma financial information;~~
- ~~• Checking whether management has appropriately extracted the unadjusted financial information from the source documents;~~
- ~~• Evaluating whether management has compiled the pro forma financial information on a basis consistent with the company's financial reporting framework and its accounting policies under that framework;~~
- ~~• Considering management's evidence supporting the pro forma adjustments;~~
- ~~• Determining whether the calculations within the pro forma financial information are arithmetically accurate; and~~
- ~~• Evaluating the overall presentation and disclosure of the pro forma financial information and related explanatory notes.~~

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

For purposes of this engagement:

- ~~_____~~ We are not responsible for updating or reissuing any reports or opinions on any financial information used in compiling the pro forma financial information; ~~and~~
- ~~In addition, w~~We have not performed an audit or review of the pro forma financial information ~~itself, nor in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information. and, accordingly, we do not express an opinion on the pro forma financial information.~~

Opinion

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

Report on Other Legal or Regulatory Requirements

~~[Relevant law or regulation may require the practitioner to express an opinion on other matters (see paragraphs A43–A44). The form and content of this section of the practitioner’s report will vary with the nature of such other reporting responsibilities.]~~

[Practitioner’s signature]

[Date of the practitioner’s report]

[Practitioner’s address]