

**Assurance on Proper Compilation of Pro Forma Financial Information  
Included in Prospectuses—Issues and IAASB Task Force Proposals****A. PROFIT FORECASTS AS UNADJUSTED FINANCIAL INFORMATION**

1. At the March 2009 meeting, the IAASB asked the Task Force to consider whether the proposed ISAE should remain silent on the matter of using profit forecasts as unadjusted financial information for the compilation of pro forma financial information or whether it should explicitly exclude profit forecasts from its scope. Some IAASB members were of the view that profit forecasts should not be included in the scope of the ISAE given the potential for confusion among users in terms of level of assurance relative to the use of historical financial information as unadjusted financial information. Others noted that the matter should be left to the appropriate regulatory bodies to deal with at the national level. It was also noted that, in a number of jurisdictions, the relevant regulations require adjustments to be factually supportable, which could preclude the use of profit forecasts.
2. After giving the matter further thought in the light of the IAASB comments, the Task Force agreed that the proposed ISAE should remain silent on whether profit forecasts may be used as unadjusted financial information. The Task Force believes that it would be inappropriate for the ISAE to impose a restriction on a practice that may be permitted under the relevant law or regulation in a jurisdiction. Accordingly, the ISAE makes no mention of whether profit forecasts may or may not be used as unadjusted financial information.

**B. MEANING OF “PROPERLY COMPILED”**

3. At the March 2009 meeting, the IAASB agreed that a clear explanation of the term “properly compiled” is of high importance given the potential for confusion with engagements to compile financial information that are long established in a number of jurisdictions. The IAASB also agreed that there is a need to be clear in the practitioner’s report about the work performed to report on proper compilation and what work the practitioner did not perform (i.e., an audit of the pro forma financial information or any of the underlying financial information).
4. In the light of these comments, the Task Force proposes that the ISAE establish a definition of the term “proper compilation” that focuses on the key steps involved in producing the pro forma financial information, i.e.:

The making of:

- (i) Appropriate adjustments 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
- (ii) Appropriate disclosures to enable intended users to understand the resulting pro forma financial information.

For the avoidance of doubt, this definition makes clear the following:

Pro forma financial information that has been produced as a result of this process is described as being properly compiled. (See paragraph 8(e) of the draft ISAE, Agenda Item 3-B).<sup>1</sup>

5. Paragraph A3 in the application material complements this definition by explaining the key steps that are ordinarily involved in properly compiling pro forma financial information.
6. To minimize the potential for confusion with engagements to compile financial information, the Task Force also proposes that the ISAE make clear in its Scope section that it does not deal with non-assurance engagements to compile financial statements, and that such engagements are dealt with in ISRS 4410<sup>2</sup> (see paragraph 2).
7. In addition, while the Task Force proposes that the ISAE only mandate the inclusion of a *summary* of the practitioner's procedures in the report (see paragraph 50(h)), the Task Force believes that it would be helpful to provide an illustrative practitioner's report in the ISAE showing how the practitioner may summarize that work in the report, based in large part on the key steps outlined in paragraph A3 (see Appendix 1).
8. However, the Task Force believes that it is important that users do not confuse a report on the proper compilation of pro forma financial information as conveying audit-level assurance on that information or any of the underlying financial information. Accordingly, the Task Force proposes that the ISAE mandate the inclusion of the following statements in the practitioner's report:
  - (a) That the assurance engagement does not require an audit of the pro forma financial information or any of the underlying financial information, including the pro forma adjustments and the basis of compilation; and
  - (b) That 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. (See paragraph 50(f)(ii) and (iii)).

C. REPORTING ON WHETHER UNDERLYING FINANCIAL INFORMATION HAS BEEN AUDITED

9. At the March 2009 meeting, some concern was expressed that the practitioner might issue a reasonable assurance report in an engagement to report on proper compilation of pro forma financial information without the sources of the underlying financial information (i.e. unadjusted financial information and any other financial information used in the compilation) having been audited. The IAASB generally agreed that transparency of reporting would be important in this context, i.e., if the sources have not been audited, the practitioner's report should clearly indicate so.
10. The Task Force has, however, further considered this matter and generally taken the view that including a requirement in the proposed ISAE for the practitioner to report on whether the sources of the underlying financial information have been audited would not be appropriate. This is because the practitioner's primary objective is to report on whether the

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<sup>1</sup> Paragraph and appendix references hereinafter are to the draft ISAE (Agenda Item 3-B) unless otherwise stated.

<sup>2</sup> ISRS 4410, "Engagements to Compile Financial Statements."

pro forma financial information has been properly compiled and not on whether the sources of the underlying financial information have been audited. Further, in respect of the unadjusted financial information of the entity, the responsible party would already be required under the benchmarks for the applicable criteria to disclose whether the source of that information has been audited (see paragraph 11(b)(ii)). Accordingly, there is no obligation in the proposed ISAE for the practitioner report on whether the sources of the underlying financial information have been audited.

11. Nevertheless, the Task Force recognizes that the practitioner may consider it appropriate in the context of the engagement to state in the practitioner’s report whether the sources of the unadjusted financial information and any other underlying financial information have been audited or reviewed. The Task Force has therefore provided some guidance to that effect in paragraph A54.

D. WORK EFFORT REGARDING THE UNADJUSTED FINANCIAL INFORMATION

12. At the March 2009 meeting, the IAASB generally agreed that if the unadjusted financial information has not been audited or reviewed, the practitioner should be required to perform sufficient procedures to gain an understanding of the financial and reporting practices associated with that information, as well as other procedures necessary to support the expression of a positive opinion that the pro forma financial information has been properly compiled.
13. In the light of this general consensus, the Task Force proposes that the practitioner be required to perform the procedures set out in paragraph 20 (based mainly on procedures that the practitioner would ordinarily perform to update the practitioner’s understanding of the entity and its environment in a review engagement performed under ISRE 2410).<sup>3</sup> In the Task Force’s view, the source from which the unadjusted financial information is extracted will in practice ordinarily be audited or reviewed by the practitioner. Where this is not so (e.g. interim management accounts), it will often be the case that the practitioner will have audited or reviewed the prior period’s financial information (e.g., annual financial statements). Accordingly, the Task Force believes that it is appropriate that the practitioner be required to perform the procedures set out in paragraph 20 to update *as necessary* the understanding that the practitioner may have obtained from performing audits or reviews of the entity’s prior period financial information. Doing so thus enables the practitioner to gain a sufficient understanding of the financial and reporting practices associated with the unadjusted financial information without going so far as to undertake a full scope review of that information.
14. Where the practitioner has never been engaged to audit or review the entity’s financial information, performing the procedures set out in paragraph 20 would be necessary for the practitioner to obtain the required understanding. Similarly, where additional underlying financial information (such as financial information of businesses that are being acquired or divested) is used in the compilation of the pro forma financial information and such underlying financial information has not been audited or reviewed by the practitioner, the Task Force believes that the practitioner should perform the procedures set out in paragraph

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<sup>3</sup> ISRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.”

20 as appropriate in relation to that information to obtain sufficient appropriate evidence that the underlying financial information provides a reasonable basis for the pro forma adjustments (see paragraphs 28-29).

15. The Task Force believes that the procedures specified in paragraph 20 should in practice not be unduly burdensome, as practitioners may already be performing them in such situations.

E. MODIFIED OPINIONS

*Modified Opinion on Proper Compilation of Pro Forma Financial Information*

16. Circumstances may arise in which the practitioner may be unable to issue an unmodified opinion with regard to the proper compilation of the pro forma financial information. This may be because the practitioner concludes from the evidence obtained that the compilation of the pro forma financial information is not free from material misstatement, or because the practitioner is unable to obtain sufficient appropriate evidence to conclude that the compilation of the pro forma financial information is free from material misstatement. The Task Force, however, recognizes that in most jurisdictions, the relevant securities exchange will not accept a prospectus that includes pro forma financial information in respect of which a modified opinion has been issued regarding the proper compilation of such information.
17. Nevertheless, consistent with ISAE 3000, the Task Force has included a section on modified opinions in the proposed ISAE (see paragraphs 36-46) to cater for the rare circumstances where a securities exchange may accept a prospectus containing a practitioner's report with a modified opinion on the proper compilation of pro forma financial information included in the prospectus. The inclusion of such a section in the proposed ISAE is not to suggest that modified opinions on the proper compilation of pro forma financial information are routine occurrences or that securities exchanges will readily accept prospectuses containing them. To make this clear, the Task Force has included guidance in paragraph A46 to emphasize that, in most jurisdictions, securities exchanges do not accept prospectuses that contain modified opinions on the proper compilation of pro forma financial information.
18. In addition, while the Task Force has provided an illustrative practitioner's report containing a qualified opinion (see Appendix 2 of the proposed ISAE), it decided not to provide additional illustrative reports containing modified opinions (e.g., adverse opinions and disclaimers of opinion) to avoid suggesting that modifications to the practitioner's opinion are anything other than rare occurrences.

*Modified Audit Opinion or Review Conclusion on, or Emphasis of Matter Paragraph with Respect to, the Unadjusted Financial Information*

19. Circumstances may also arise where a modified audit opinion or review conclusion has been issued, or where an Emphasis of Matter has been made, with respect to the source of the unadjusted financial information that is used for the compilation of the pro forma financial information. The Task Force believes that some jurisdictions may not permit the use of, or reference in the practitioner's report to, such a source of the unadjusted financial

information. Nevertheless, there may be jurisdictions where the relevant law or regulation is silent as to whether such a source of the unadjusted financial information may be used or referred to in the practitioner's report. In such cases, if a modified audit opinion or review conclusion has been issued regarding the source being used, or if the report thereon includes an Emphasis of Matter paragraph, the Task Force believes that the practitioner should first consider the potential effect on the pro forma financial information before considering the need for further action (see paragraph 23). This is because a modified audit opinion or review conclusion, or an Emphasis of Matter paragraph, with respect to the source of the unadjusted financial information may not necessarily have an effect on the pro forma financial information. To make this clear, the Task Force has provided guidance to that effect in paragraph A41.

20. Largely for the latter reason, the Task Force also proposes that the ISAE not mandate that the practitioner disclose in the practitioner's report whether a modified audit opinion or review conclusion has been issued with respect to the source of the unadjusted financial information. Nevertheless, the Task Force has provided guidance in paragraph A54 to indicate that the practitioner has the option of disclosing such a fact in the practitioner's report.

F. INTERACTION WITH ISAE 3000

21. Given that ISAE 3000<sup>4</sup> is the overarching standard for assurance engagements other than audits or reviews of historical financial information, the Task Force has taken the view that the proposed ISAE 34XX should not repeat requirements that are already specified in the former unless it is necessary to expand on these requirements in the specific circumstances of engagements within the scope of the latter. Accordingly, the Task Force proposes that the scope section of the proposed ISAE 34XX include the following explanation:

The performance of assurance engagements other than audits or reviews of historical financial information requires the practitioner to comply with ISAE 3000. ISAE 3000 includes requirements in relation to such topics as engagement acceptance, planning, evidence, and documentation that apply to all assurance engagements, including engagements in accordance with this ISAE. This ISAE expands on how ISAE 3000 is to be applied in a reasonable assurance engagement to report on the proper compilation of pro forma financial information included in a prospectus. The Assurance Framework, which defines and describes the elements and objectives of an assurance engagement, provides context for understanding this ISAE and ISAE 3000. (See paragraph 4).

22. This wording differs slightly from the corresponding wordings used in proposed ISAEs 3402<sup>5</sup> and 3410.<sup>6</sup> This and other issues regarding the interaction between ISAE 3000 and subject-specific ISAEs are discussed in the Issues Paper for proposed ISAE 3410.

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<sup>4</sup> ISAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information."

<sup>5</sup> Proposed ISAE 3402, "Assurance Reports on Controls at a Service Organization."

<sup>6</sup> Proposed ISAE 3410, "Assurance on a Greenhouse Gas Statement."