

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

Draft International Standard on Assurance Engagements 3420 Dated September 2011 Showing Changes from Draft Dated March 2011

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

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~~Proposed~~ International Standard on Assurance Engagements (ISAE) 3420, *Assurance Reports Engagements to Report 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 practitioner¹ to report on ~~the proper compilation of whether~~ pro forma financial information included in a prospectus has been properly compiled. The ISAE applies where:
 - Such reporting is required by securities law or the regulation of the securities exchange (“relevant law or regulation”) in the jurisdiction in which the prospectus is to be issued; or
 - This reporting is generally accepted practice in such jurisdiction. (Ref: Para. A1)

Nature of the Practitioner’s Responsibility

2. In an engagement performed under this ISAE, the practitioner has no responsibility to compile the pro forma financial information for the entity; such responsibility rests with the responsible party.² The practitioner’s sole responsibility is to report on whether the proper compilation of the pro forma financial information has been properly compiled 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 4410.³

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 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. A24–A32)

Compilation of Pro Forma Financial Information

5. The compilation of pro forma financial information involves the responsible party gathering, classifying, summarizing and presenting financial information that illustrates the impact of a significant event or transaction on unadjusted financial information of the

¹ The term “practitioner” is described in ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraph 1.

² The *International Framework for Assurance Engagements* (the Assurance Framework), paragraphs 25–26, describes the meaning of the term “responsible party.”

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

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. A43–A54)
- 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.

Nature of Reasonable Assurance Engagement

6. A reasonable assurance engagement to report on whether the proper compilation of pro forma financial information has been properly compiled involves performing procedures set out in this ISAE to obtain evidence about whether: (Ref: Para. A6)

- The responsible party has an appropriate basis applicable criteria used by the responsible party for presenting—illustrating the significant effects directly attributable to the event or transaction are suitable(see paragraphs 14–15, 17–20, 24, and 25(a)); and
- The related pro forma adjustments give appropriate effect to that identified basis(see paragraphs 16, 21 and 22); and
- The pro forma column financial information reflects the proper application of those criteriaadjustments 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 engagement, however, does not involve the practitioner updating or reissuing any reports or opinions on any financial information used in compiling expressing an opinion on the pro forma financial information, itself, or performing an audit or review of the on the unadjusted or any other underlying financial information used in compiling the pro forma financial information.

7. Because pro forma financial information does not represent an entity's actual financial position, financial performance, or cash flows, it is not possible to express an audit opinion or review conclusion on pro forma financial information.

Relationship with Other Professional Pronouncements

87. The performance of assurance engagements other than audits or reviews of historical financial information requires the practitioner to comply with ISAE 3000.⁴ 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

⁴ ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

be applied in a reasonable assurance engagement to report on ~~the proper compilation of whether pro forma financial information included in a prospectus has been properly compiled~~. The Assurance Framework, which defines and describes the elements and objectives of an assurance engagement, provides context for understanding this ISAE and ISAE 3000.

98. Compliance with ISAE 3000 requires, among other things, that the practitioner:
- Comply with the independence and other requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code); and
 - Implement quality control procedures that are applicable to the individual engagement.⁵

Effective Date

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

Objectives

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

Definitions

121. For purposes of this ISAE, the following terms have the meanings attributed below:
- (a) Applicable criteria – The criteria used by the responsible party when compiling the pro forma financial information together with explanatory notes describing how the criteria have been applied in illustrating the effects of the particular event or transaction. ~~Applicable c~~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~~ will be developed by the responsible party. (Ref: Para. A75–A96)
 - ~~(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~~

⁵ ISAE 3000, paragraphs 4 and 6

~~a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.”~~

- (b~~d~~) Pro forma adjustments – In relation to unadjusted financial information, these include:
- (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. A17~~45~~–A18~~46~~)

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”).

- (c~~e~~) Pro forma financial information – Financial information shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration.
- ~~(f) Properly compiled – When the responsible party has, in all material respects, performed the compilation of the pro forma financial information on the basis stated.~~
- (d~~g~~) 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.
- (e~~h~~) Published financial information – Financial information of the entity or of an acquiree or a divestee that is made available publicly.
- (f~~i~~) Published audit or review report – An audit or review report that is made available publicly.
- (g~~j~~) Unadjusted financial information – Financial information of the entity to which pro forma adjustments are applied by the responsible party. (Ref: Para. A4–A5)

Requirements

ISAE 3000

- 13~~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

- 14~~3~~. Before agreeing to accept an engagement to report on whether the proper compilation of pro forma financial information included in a prospectus has been properly compiled, the practitioner shall:

- (a) Determine that the practitioner has the capabilities and competence to perform the engagement; (Ref: Para. A108)
- (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. A551–A572)
- ~~(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)~~
- (de) Where applicable, determine, in relation to the sources from which the unadjusted financial information and any acquiree or divestee financial information have been extracted, 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 such sources of the unadjusted financial information or the source of any acquiree or divestee financial information;~~ and
- (ef) Obtain the agreement of the responsible party that it acknowledges and understands its responsibility for: (Ref: Para. A110–A124)
 - (i) Adequately disclosing and describing the applicable criteria to the intended users if these are not publicly available;
 - (ii) Compiling the pro forma financial information on the basis of the applicable criteria~~stated~~; and
 - (iii) Providing the practitioner with:
 - a. Access to all information (including, ~~when~~ where required for purposes of the engagement, information of acquirees in a business combination), such as records, documentation and other material, relevant to evaluating whether the proper compilation of the pro forma financial information has been properly compiled;
 - 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 proper compilation of evaluating whether~~ the pro forma financial information has been properly compiled; and

- d. ~~When~~re required for purposes of the engagement, access to appropriate individuals within acquirees in a business combination.
15. Other than in the case of an entity formed for purposes of the transaction, the practitioner shall not accept an engagement to report on pro forma financial information if the entity's historical financial information has never been audited or reviewed. (Ref: Para. A13)
16. If the event or transaction involves an acquisition and the acquiree's historical financial information has never been audited or reviewed, the practitioner shall consider whether the practitioner can obtain a sufficient understanding of the acquiree and its accounting and financial reporting practices to perform the engagement. If the practitioner is unable to obtain such understanding, the practitioner shall not accept the engagement. (Ref: Para. A14)

Assessing the Suitability of the Applicable Criteria

174. ~~As part of~~ The practitioner shall assessing whether the applicable criteria are suitable, as required by ISAE 3000,⁶ and in particular the practitioner shall determine that they include, at a minimum, that: (Ref: Para. A12)
- (a) The unadjusted financial information be extracted from an appropriate source; (Ref: Para. A4–A5)
- (b) The pro forma adjustments be:
- (i) Directly attributable to the event or transaction; (Ref: Para. A153)
- (ii) Factually supportable; and (Ref: Para. A164)
- (iii) Consistent with the entity's applicable financial reporting framework and its accounting policies under that framework; and (Ref: Para. A175–A186)
- (c) Appropriate presentation be made and disclosures be provided to enable the intended users to understand the information conveyed. (Ref: Para. A21–A32, A439)
185. In addition, the practitioner shall assess whether the applicable criteria are:
- (a) Consistent, and do not conflict, with relevant law or regulation; and
- (b) Unlikely to result in pro forma financial information that is misleading.

Planning and Performing the Engagement

Materiality

196. When planning and performing the engagement, the practitioner shall consider materiality with respect to ~~the proper compilation of evaluating whether the~~ pro forma financial information has been properly compiled. (Ref: Para. A197–A2048)

Obtaining an Understanding of ~~How the Responsible Party's Compilation of~~ Has Compiled the Pro Forma Financial Information and Other Engagement Circumstances

2047. The practitioner shall obtain an understanding of: (Ref: Para. A219)

⁶ ISAE 3000, paragraph 19

- (a) The event or transaction in respect of which the pro forma financial information is being compiled;
- (b) How the responsible party's compilation of has compiled the pro forma financial information; (Ref: Para. A220–A234)
- (c) The nature of the entity and any acquiree or divestee, including: (Ref: Para. A242–A253)
 - (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. A264–A286)
- (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 Responsible Party's Compilation of the Pro Forma Financial Information

Obtaining Evidence about the Appropriateness of the Source from Which the Unadjusted Financial Information Has Been Extracted

- 218. The practitioner shall determine whether the responsible party has ~~used~~ extracted an appropriate source of the unadjusted financial information from an appropriate source. (Ref: Para. A297–A3028)
- 224. If there is no audit or review report on the source from which the unadjusted financial information has been extracted, the practitioner shall perform procedures to be satisfied that the source is appropriate. (Ref: Para. A3129–A320)
- 230. The practitioner shall determine whether the responsible party has appropriately extracted the unadjusted financial information from the source.

Obtaining Evidence about the Appropriateness of the Pro Forma Adjustments

- 241. In evaluating whether the pro forma adjustments are appropriate, ~~The~~ practitioner shall determine whether the responsible party has 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. (Ref: Para. A334)
- 252. In ~~The practitioner shall determine~~ whether the pro forma adjustments are in accordance with the ~~basis stated~~ applicable criteria, the practitioner shall determine whether they. ~~This shall include determining whether the pro forma adjustments are:~~
 - (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

from which such financial information has been extracted, the practitioner shall perform procedures to be satisfied that the financial information is factually supportable; and (Ref: ~~Para. A14, A342–A395~~)

- (c) Consistent with the entity's applicable financial reporting framework and its accounting policies under that framework. (~~Ref: Para. A15–A16~~)

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

264. A modified audit opinion or review conclusion may have been expressed with respect to either the source ~~of~~ from which the unadjusted financial information has been extracted or the source from which ~~of~~ the acquiree or divestee financial information has been extracted, or a report containing an Emphasis of Matter paragraph may have been issued with respect to such source. 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 proper compilation of whether~~ the pro forma financial information has been properly compiled; (Ref: Para. A4036)
- (b) What further appropriate action to take; and (Ref: Para. A4137)
- (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.

Source from Which the Unadjusted Financial Information Has Been Extracted or Pro Forma Adjustments Not Appropriate

275. If, on the basis of the procedures performed, the practitioner identifies that the responsible party has:

- (a) Used an inappropriate source ~~of~~ from which to extract the unadjusted financial information ~~that is not appropriate~~; or
- (b) Omitted a pro forma adjustment that should be included, applied a pro forma adjustment that is not in accordance with the applicable criteria 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. (Ref: Para. A4137)

Obtaining Evidence about the Calculations within the Pro Forma Financial Information

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

Evaluating the Presentation of the Pro Forma Financial Information

296. The practitioner shall evaluate the presentation of the pro forma financial information. 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. A~~21~~32)
- (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; (Ref: Para. A~~42~~38)
- (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. A~~43~~39)
- (d) Whether the practitioner has become aware of any significant events subsequent to the date of the source ~~of~~ from which the unadjusted financial information has been extracted that may require reference to, or disclosure in, the pro forma financial information. (Ref: Para. A~~44~~40)

~~3027.~~ 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. A~~45~~41)

Written Representations

~~3128.~~ The practitioner shall request written representations from the responsible party that:

- (a) ~~The compilation of~~ In compiling the pro forma financial information, the responsible party has identified all appropriate pro forma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration; (Ref: Para. A~~46~~42)
- (b) The omission of any pro forma adjustments from the compilation of the pro forma financial information because they are not in accordance with the applicable criteria ~~basis stated~~ does not render the pro forma financial information misleading; and
- (c) The pro forma financial information has been 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

~~329.~~ The practitioner shall form an opinion on whether the pro forma financial information has been properly compiled by the responsible party on the basis of the applicable criteria ~~stated~~. (Ref: Para. A~~47~~43–A~~49~~45)

~~330.~~ In order to form that opinion, the practitioner shall conclude ~~as to~~ whether the practitioner has obtained sufficient appropriate evidence about:

- (a) The appropriateness of the source from which the unadjusted financial information has been extracted; and

- (b) ~~Whether the compilation of the pro forma financial information is free from material omissions, or inappropriate use or application of any element thereof a pro forma adjustment.~~

That conclusion shall include an evaluation of whether the responsible party has adequately disclosed and described the applicable criteria ~~if to the extent that~~ these are not publicly available. (Ref: Para. A5046–A5147)

Form of Opinion

Unmodified Opinion

341. The practitioner shall express an unmodified opinion when the practitioner concludes that the pro forma financial information has been properly compiled by the responsible party on the basis of the applicable criteria~~stated~~.

Modified Opinion

352. In many jurisdictions, the relevant law or regulation precludes publication of a prospectus that contains a modified opinion with regard to ~~the proper compilation of whether~~ the pro forma financial information has been properly compiled. 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) Withhold the report;
- (b) Withdraw from the engagement; or
- (c) Consider seeking legal advice.

363. In ~~rare circumstances~~ some jurisdictions, the relevant law or regulation may not preclude publication of a prospectus that contains a modified opinion with regard to ~~the proper compilation of whether~~ the pro forma financial information has been properly compiled. In ~~such circumstances~~ jurisdictions, if the practitioner determines that a modified opinion is appropriate in accordance with ISAE 3000, the practitioner shall apply the requirements in ISAE 3000⁷ regarding modified opinions.

Emphasis of Matter Paragraph

374. 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. 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 ~~whether the proper compilation of the~~ pro forma financial information has been properly compiled. 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 affect ~~the proper compilation of whether the~~

⁷ ISAE 3000, paragraphs 51–52

pro forma financial information has been properly compiled. 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

385. The practitioner's report shall include the following basic elements: (Ref: Para. A583)

- (a) A title that clearly indicates that the report is an independent assurance report; (Ref: Para. A5248)
- (b) An addressee(s), as agreed in the terms of engagement; (Ref: Para. A5349)
- (c) Introductory paragraphs that identify: (Ref: Para. A540)
 - (i) The pro forma financial information;
 - (ii) The source ~~of~~ from which the unadjusted financial information has been extracted, 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
 - (iv) A reference to the applicable criteria ~~in accordance with~~ on the basis of which the responsible party has performed the compilation of the pro forma financial information ~~has been performed~~, and the source of the criteria;
- (d) A statement that the responsible party is responsible for compiling the pro forma financial information on the basis of the applicable criteria ~~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 pro forma financial information has been properly compiled by the responsible party on the basis of the applicable criteria ~~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 compilation of the pro forma financial information; and b. nor has the practitioner 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~~
 - (iii) Because pro forma financial information does not represent an entity's actual financial position, financial performance, or cash flows, it is not possible to express an audit opinion or review conclusion on pro forma financial information;
- (f) A statement that the engagement was performed in accordance with ISAE 3420, *Assurance Reports—Engagements to Report on the 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 properly compiled the pro forma financial information ~~has been properly compiled by responsible party on the basis of the applicable criteria~~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;~~

~~(gh)~~ Statements that:

(i) A reasonable assurance engagement to report on whether the proper compilation of pro forma financial information has been properly compiled involves performing procedures to obtain evidence about whether:

- ~~The responsible party has an appropriate basis~~ applicable criteria used by the responsible party for presenting ~~illustrating~~ the significant effects directly attributable to the event or transaction are suitable; and
- ~~The related pro forma adjustments give appropriate effect to that identified basis; and~~
- The pro forma ~~column~~ financial information reflects the proper application of those ~~criteria~~ 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;

~~(h)~~ Unless otherwise required by law or regulation, The practitioner's opinion as to whether the pro forma financial information has been properly compiled on the basis stated using one of the following phrases, which are regarded as being equivalent; (Ref: Para. A554–A572)

(i) The pro forma financial information has, in all material respects, been properly compiled on the basis of the applicable criteria; or

(ii) The pro forma financial information has been properly compiled on the basis stated;

~~(i)~~ The practitioner's signature;

~~(j)~~ The date of the report; and

~~(k)~~ The location in the jurisdiction where the practitioner practices.

Application and Other Explanatory Material

Scope of this ISAE (Ref: Para. 1)

- A1. This standard does not deal with circumstances where pro forma financial information is provided as part of the entity's financial statements pursuant to the requirements of an applicable financial reporting framework.

Purpose of Pro Forma Financial Information Included in a Prospectus (Ref: Para. 4, 174(c), 296(a))

- A24. 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 A439.
- A32. 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, the entity may acquire 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 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."

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

Unadjusted Financial Information (Ref: Para. 5, 12(g), 17(a))

- A43. In many cases, the source of from which the unadjusted financial information has been extracted will be published financial information such as annual or interim financial statements.
- A54. Depending on how the responsible party chooses to illustrate the impact of the event or transaction, the unadjusted financial information may comprise either:
- One or more single financial statements, such as a statement of financial position and a statement of comprehensive income; or
 - Financial information that is appropriately condensed from a complete set of financial statements, for example, a statement of net assets.

Nature of Reasonable Assurance Engagement (Ref: Para. 6)

A6. In this ISAE, describing the pro forma financial information as being “properly compiled” means that the pro forma financial information has, in all material respects, been compiled by the responsible party on the basis of the applicable criteria.

Definitions

~~Applicable Criteria~~ (Ref: Para. 124(a))

- A75. Where established criteria for compiling the pro forma financial information do not exist, the responsible party ~~may~~ will have developed the applicable criteria based on, for example, ~~based on~~ practice in a particular industry or the criteria of a jurisdiction that has developed established criteria, and disclosed that fact.
- A86. The ~~applicable~~ criteria for compiling the pro forma financial information will be suitable in the circumstances if they meet the benchmarks set out in paragraph 174.

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

- A97. ~~Although~~ The accompanying explanatory notes applicable criteria specify how the compilation of the pro forma financial information is to be performed, the responsible party may include some additional detail about the criteria in the accompanying explanatory notes to describe how they applicable criteria have been applied in 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~~ at which the event is assumed to have occurred or the transaction been undertaken.
 - The approach used for allocating income, overheads, assets and liabilities between relevant businesses in a divestment.

~~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.~~

Engagement Acceptance

Capabilities and Competence to Perform the Engagement (Ref: Para. 143(a))

- A108. The IESBA Code requires the practitioner to maintain appropriate professional knowledge and skill, ~~and including~~ an awareness and understanding of relevant technical, professional and business developments, in order to provide competent professional service.⁸ 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;

⁸ IESBA Code, paragraphs 130.1–130.3

- 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;
- 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 sources ~~of~~ from which the unadjusted financial information and, if applicable, ~~of~~ the acquiree's financial information have been extracted.

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. 143(e))

~~A11~~9. 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 143(e). In some jurisdictions, such responsibilities may be specified in the relevant law or regulation. In others, there may be little or no legal or regulatory definition of such responsibilities. An assurance engagement to report on ~~the proper compilation of whether~~ pro forma financial information has been properly compiled is based on the assumption that:

- (a) The practitioner's role does not involve taking responsibility for ~~the compilation of compiling~~ such information; and
- (b) The practitioner has a reasonable expectation of obtaining the information necessary for the engagement.

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 3000.⁹

⁹ ISAE 3000, paragraph 10

A124. If law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need ~~not only record them in a written agreement. However, the written agreement would state~~ the fact that such law or regulation applies and that the responsible party acknowledges and understands its responsibilities as set out in paragraph 143(fe).

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

A12. ~~Because pro forma financial information, by its nature, 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.~~

Historical Financial Information of the Entity Never Audited or Reviewed (Ref: Para. 15)

A13. An entity formed for purposes of the transaction is one that has not previously had any trading activity and, apart from share capital, has no assets or liabilities.

Historical Financial Information of the Acquiree Never Audited or Reviewed (Ref: Para. 16)

A14. Often in circumstances in which the acquiree's historical financial information has never been audited or reviewed, the acquiree may be a component (such as a branch or division) of another entity that has previously been audited or reviewed. In these circumstances, the practitioner may be able to obtain a sufficient understanding of the acquiree and its accounting and financial reporting practices to perform the engagement. In some circumstances, however, the acquiree may be a component of another entity, or the acquiree itself may be an entity, that has never previously been audited or reviewed. In such circumstances, the practitioner will not be able to obtain the understanding of the acquiree and its accounting and financial reporting practices necessary to perform the engagement.

Directly Attributable Adjustments (Ref: Para. 174(b)(i), 22(a))

A153. 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. 174(b)(ii), 22(b))

A164. 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~~ Factually supportable adjustments ~~are nevertheless~~ capable of objective determination. Sources of factual support for the pro forma adjustments include, for example:

- Purchase and sale agreements.

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

Adjustments Consistent with the Entity's Applicable Financial Reporting Framework and Its Accounting Policies under that Framework (Ref: Para. 124(b)(ii), 174(b)(iii), 22(e))

A175. 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 properly compilation of compiling~~ 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 transactions undertaken by the acquiree ~~which that~~ the entity has not previously entered into are policies that the entity would have adopted for such transactions under its applicable financial reporting framework, taking into account the entity's particular circumstances.

A186. ~~A-e~~ Consideration of the appropriateness of the entity's accounting policies may also be necessary in some circumstances. For example, as part of the event or transaction, the entity may propose to issue complex financial instruments for the first time. If this is the case, it may be necessary to consider:

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

Planning and Performing the Engagement

Materiality (Ref: Para. 126)

A197. Materiality with regard to ~~the proper compilation of whether~~ the pro forma financial information has been properly compiled 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 compilation as described in paragraph A2048, whether

or not intentional. Judgment about these aspects of size and nature will, in turn, depend on such matters as:

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

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

A2018. The pro forma financial information may not be considered properly compiled when there is evidence of, for example:

- Use of an inappropriate source ~~for~~ from which to extract 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 How the Responsible Party's Compilation of Has Compiled the Pro Forma Financial Information and Other Engagement Circumstances (Ref: Para. 2017)

A219. 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 compilation of~~ compiling 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 Compilation of~~ How the Responsible Party Has Compiled the Pro Forma Financial Information (Ref: Para. 2017(b))

A220. ~~Matters in respect of which~~ The practitioner may obtain an understanding with regard to of how the responsible party has compiled the compilation of the pro forma financial information include by considering, for example:

- The source ~~of~~ from which the unadjusted financial information has been extracted ~~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 compiling pro forma financial information.
- The nature and extent of oversight by the responsible party of other entity personnel involved in ~~the compilation of~~ compiling the pro forma financial information.
- The responsible party's approach to identifying appropriate disclosures to support the pro forma financial information.

A23~~1~~. In a business combination or divestment, areas that may give rise to complexity in the compilation of the pro forma financial information include allocations of income, overheads, and assets and liabilities among or between the relevant businesses. Accordingly, it is important ~~for that~~ 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.

Nature of the Entity and Any Acquiree or Divestee (Ref: Para. ~~204~~7(c))

A24~~2~~. 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 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.

A25~~3~~. 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. ~~204~~7(d))

A26~~4~~. 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.

A275. Relevant legal and regulatory factors include the legal and regulatory environment. ~~This, 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.
- 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.

A286. 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 Responsible Party's Compilation of the Pro Forma Financial Information Obtaining Evidence about the Appropriateness of the Source from Which the Unadjusted Financial Information Has Been Extracted

~~Source of the Unadjusted Financial Information~~ Relevant Factors to Consider (Ref: Para. 4821)

A297. Factors that ~~may~~ affect the appropriateness of the source from which the unadjusted financial information has been extracted 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 is~~ permitted by the relevant securities exchange with which the prospectus is to be filed, or is used as such under normal market custom and practice.
- Is clearly identifiable.
- Represents a reasonable starting point for compiling the pro forma financial information in the context of the event or transaction, including whether it is consistent with the entity's accounting policies and is at an appropriate date or covers an appropriate period.
- ~~Is used as such under normal market custom and practice.~~

A3028. ~~If a~~ An audit or review report on the source from which the unadjusted financial information has been extracted ~~may have~~ been issued by another practitioner. In this situation, the need by the practitioner reporting under this ISAE for an understanding of the

entity and its accounting and financial reporting practices pursuant to the requirements of subparagraphs 20(c) and (e) 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 from Which the Unadjusted Financial Information Has Been Extracted (Ref: Para. 4922)

A3129. ~~When~~ Where there is no audit or review report on the source from which the unadjusted financial information has been extracted, it is necessary for the practitioner to perform procedures in relation to the appropriateness of that source. Factors that may affect the nature and extent of these procedures include, for example:

- 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.
- How recently the entity's historical financial information was audited or reviewed.
- Whether the entity's financial information is subject to periodic review by the practitioner, for example, for purposes of meeting regulatory filing requirements.

A320. The entity's financial statements for the period immediately preceding that of the source ~~of from which~~ the unadjusted financial information has been extracted ~~will have~~ are likely to have been audited or reviewed, ~~consistent with the precondition in paragraph 13(d), even if the source of from which the unadjusted financial information has been extracted itself is not.~~ For example, the source from which the unadjusted financial information has been extracted may be interim financial statements that have not been audited or reviewed whereas the entity's financial statements for the immediately preceding ~~fiscal~~ financial year may have been audited. In such a case, procedures that the practitioner may perform, having regard to the factors in paragraph A3129, in relation to the appropriateness of ~~the~~ that source from which the unadjusted financial information has been extracted 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 most recent audited or reviewed period and, if so, how such changes have been dealt with.
 - ~~The responsible party's~~ Its 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.

- If the practitioner has ~~Considering the findings of the audited or reviewed~~ of the immediately preceding annual or interim financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the unadjusted financial information has been extracted.
- ~~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 applicable, the immediately preceding annual or interim financial information, and discussing significant changes with the responsible party.

Obtaining Evidence about the Appropriateness of the Pro Forma Adjustments

Pro Forma Adjustments

Identification of ~~a~~ Appropriate ~~p~~ Pro f Forma a Adjustments (Ref: Para. 244)

A334. Informed by the practitioner's understanding of how the responsible party's ~~compilation of~~ has compiled 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 compilation of~~ compiling the pro forma financial information.
- Obtaining evidence of the responsible party's oversight of other entity personnel involved in ~~the compilation of~~ compiling the pro forma financial information.
- Performing Analytical procedures.

Factual sSupport for aAny aAcquiree or dDivestee fFinancial iInformation iIncluded in the pPro
fForma aAdjustments (Ref: Para. 252(b))

Divestee financial information

A342. In the case of a divestment, the divestee's financial information will be derived from the source ~~of from which~~ the unadjusted financial information has been extracted, which will often be audited or reviewed. ~~Such~~ The source from which the unadjusted financial information has been extracted will therefore provide the basis for the practitioner to determine whether there is factual support for the divestee financial information. In such a case, matters to consider include, for example, whether income and expenses attributable to the divestee that are recorded at the consolidated level have been appropriately reflected in the pro forma adjustments.

A35. Where the source of from which the unadjusted financial information has been extracted has not been audited or reviewed, the practitioner may refer to the guidance in paragraphs A3129–A320 in determining whether the divestee financial information is factually supportable.

Acquiree financial information

A363. In the case of an acquisition, relevant law or regulation ~~often~~ may require the source ~~of from which~~ the acquiree financial information has been extracted to be audited or reviewed for purposes of the prospectus. ~~In such circumstances~~ Where the source from which the acquiree financial information has been extracted has been audited or reviewed by the practitioner, the acquiree financial information will, subject to any implications arising from the circumstances addressed in paragraph 26, be factually supportable.

A37. The source from which the acquiree financial information has been extracted may have been audited or reviewed by another practitioner. In this situation, the need by the practitioner reporting under this ISAE for an understanding of the acquiree and its accounting and financial reporting practices pursuant to the requirements of subparagraphs 20(c) and (e) is not diminished.

A384. Whenre the source of from which the acquiree financial information has been extracted has not been audited or reviewed, it is necessary for the practitioner to perform procedures in relation to the appropriateness of that source. Factors that may affect the nature and extent of these procedures include, for example:

- Whether the practitioner has previously audited or reviewed the acquiree's historical financial information, and the practitioner's knowledge of the acquiree from such engagement.
- How recently the acquiree's historical financial information was audited or reviewed.
- Whether the acquiree's financial information is subject to periodic review by the practitioner, for example, for purposes of meeting regulatory filing requirements.

A39. ,tThe acquiree's financial statements for the period immediately preceding period that of the source from which the acquiree financial information has been extracted often will have

been audited or reviewed, ~~consistent with the precondition in paragraph 13(d) even if the source from which the acquiree financial information has been extracted itself is not.~~ In such a case, procedures that the practitioner may perform, having regard to the factors in paragraph A38, 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 from which the acquiree financial information has been extracted 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 from which the acquiree financial information has been extracted 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~~ Its assessment of the risk ~~by the acquiree's management~~ that the source from which the acquiree financial information has been extracted may be materially misstated as a result of fraud.
 - The effect of changes in the acquiree's business activities and operations.
- If the practitioner has ~~Considering the findings of the audited or reviewed~~ of the immediately preceding annual or interim financial information, considering the findings of such audit or review and whether these might indicate any issues with the preparation of the source from which the acquiree financial information has been extracted.
- ~~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 from which the acquiree financial information has been extracted 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.

~~A35. Where it is not practicable for the practitioner to obtain evidence to conclude that the financial information of an acquiree is factually supportable, 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 from Which~~ the Unadjusted Financial Information Has Been Extracted or the Source from Which the Acquiree or Divestee Financial Information Has Been Extracted

Potential ~~e~~Consequence (Ref: Para. 264(a))

A4036. Not all modified audit opinions, review conclusions or Emphasis of Matter paragraphs with respect to either the source ~~of from which~~ the unadjusted financial information has been extracted or the source ~~of from which~~ the acquiree or divestee financial information has been extracted may necessarily affect whether the proper compilation of the pro forma financial information can be properly compiled. For example, a qualified audit opinion 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 from which~~ the unadjusted financial information has been extracted, such qualification may have no consequence on ~~the proper compilation of whether~~ pro forma net asset and income statements can be properly compiled.

Further Appropriate aAction (Ref: Para. 264(b), 275)

A4137. Further appropriate action that the practitioner may take includes, for example:

- In relation to the requirement in paragraph 264(b):
 - Discussing the matter with the responsible party.
 - Where possible under relevant law or regulation, making a reference in the practitioner's report to the modified audit opinion, review conclusion, or the Emphasis of Matter paragraph, ~~whereif~~, 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 275, where possible under relevant law or regulation, modifying the practitioner's opinion.
- Where possible under relevant law or regulation, withholding the report or withdrawing from the engagement.
- Seeking legal advice.

Evaluating the Presentation of the Pro Forma Financial Information

~~Avoiding an~~ Association with Misleading Financial Information (Ref: Para. 296(b))

A4238. The IESBA Code requires that a practitioner not knowingly be associated with reports, returns, communications or other information where that the practitioner believes that the information:¹⁰

- (a) Contains a materially false or misleading statement;

¹⁰ IESBA Code, paragraph 110.2

- (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.

Disclosures Accompanying the Pro Forma Financial Information (Ref: Para. 174(c), 296(c))

A439. 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 at which such event is assumed to have occurred or transaction been undertaken~~as of, or the period for, which the responsible party has compiled the pro forma financial information;~~
- The source ~~of~~ from which the unadjusted financial information has been extracted, 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~~ from which such information has been extracted 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~~ on the basis of which the compilation of the pro forma financial information has been performed~~compiled~~; 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. 296(d))

A440. As the practitioner is not reporting on the source ~~of~~ from which the unadjusted financial information has been extracted, there is no requirement for the practitioner to perform procedures to identify events after the date of the source that require adjustment of, or disclosure in, such source. Nevertheless, it is necessary for the practitioner to consider whether any significant events subsequent to the date of the source ~~of~~ from which the unadjusted financial information has been extracted 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~~ from which the unadjusted financial information has been extracted, 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.

Material Inconsistency with Other Information (Ref: Para. ~~302~~7)

A454. 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.
- Seeking legal advice.

Written Representations (Ref: Para. ~~312~~8(a))

A462. In some circumstances, the types of transactions involved may require the responsible party to ~~use-select~~ 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-the selected~~ 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. ~~32~~9)

A473. Relevant law or regulation may require the practitioner to express an opinion on matters other than ~~whether the proper compilation of the~~ pro forma financial information has been properly compiled. In some of these circumstances, it may not be necessary for the practitioner to perform additional procedures. For example, the relevant law or regulation may 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 ~~19-21~~ and ~~25~~2(c) of this ISAE provides a basis for expressing such an opinion.

A484. In other circumstances, the practitioner may need to perform additional procedures. The nature and extent of such additional procedures will vary with the nature of the 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

A495. The relevant law or regulation may require the practitioner to include in the practitioner's report an explicit statement asserting or confirming the practitioner's responsibility for the report. 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. 330)

A5046. 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 in the responsible party's compilation of the pro forma financial information.

A5147. 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 how the compilation of the pro forma financial information has been compiled by the responsible party.

Preparing the Assurance Report

Title (Ref: Para. 385(a))

A5248. A title indicating that the report is the report of an independent practitioner, for example, "Independent Practitioner's Assurance Report on ~~the Proper Compilation of Pro Forma Financial Information Included in a Prospectus~~," affirms that the practitioner has met all of the relevant ethical requirements regarding independence as required by ISAE 3000.¹¹ This distinguishes the report of the independent practitioner from reports issued by others.

Addressee(s) (Ref: Para. 385(b))

A5349. 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. 385(c))

A540. 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.

Opinion (Ref: Para. 14(c), 38(h))

A55. Whether the phrase "pro forma financial information has, in all material respects, been properly compiled on the basis of the applicable criteria," or the phrase "pro forma financial information has been properly compiled on the basis stated" is used to express the opinion in any particular jurisdiction is determined by the law or regulation governing reporting on pro forma financial information in that jurisdiction, or by generally accepted practice in that jurisdiction.

¹¹ ISAE 3000, paragraph 4

Wording of Opinion Prescribed by Law or Regulation (Ref: Para. 13(e), 35(i))

- A564. The relevant law or regulation in some jurisdictions may prescribe the wording of the practitioner's opinion in terms other than those specified ~~above in 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 wording prescribed by law or regulation, or whether further procedures would be necessary.
- A572. ~~When~~ 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 wording prescribed by law or regulation, it may be appropriate to regard ~~that~~ this wording as being ~~generally~~ equivalent to the two alternative wordings of the opinion specified in this ISAE.

Illustrative Report (Ref: Para. 385)

- A583. A practitioner's report with an unmodified opinion is set out in the Appendix.

Appendix

(Ref: Para. A583)

Illustrative~~on~~ of a Practitioner's Report with an Unmodified Opinion

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT ON ~~THE PROPER~~ ~~COMPILATION OF~~ PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS

[Appropriate Addressee(s)]

Report on the Proper Compilation of Pro Forma Financial Information Included in a Prospectus

We have completed our assurance engagement to report on whether the pro forma financial information of ABC Company has been properly compiled by [*the responsible party*]. The pro forma financial information consists of [the pro forma net asset statement as at [date]], [the pro forma income statement for the period ended [date]], [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~~ on the basis of which [*the responsible party*] has ~~performed the compilation~~ compiled the pro forma financial information are [specified in [Securities Regulation XX] and/~~described in~~ [Note X]]/described in [Note X]].

The pro forma financial information has been compiled by [*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~~ specify date] [and] [the company's/its financial performance [and cash flows] for the period ~~then ended~~ specify date] as if the [event or transaction] had taken place at [specify date] [and specify date respectively]. 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.¹² ~~Because of its nature, the pro forma financial information does not represent the company's actual~~ [financial position], [financial performance], [or cash flows].

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

[*The responsible party*] ~~of ABC Company~~ is responsible for compiling the pro forma financial information on the basis of the applicable criteria~~stated~~.

Practitioner's Responsibilities

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

¹² 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~~ Engagements to Report on the Proper Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board. This standard requires that the practitioner comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether [the responsible party] has properly compiled the pro forma financial information ~~has been properly compiled by [the responsible party] on the basis of the applicable criteria~~ 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.~~

For purposes of this engagement, ~~we~~ 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 We have not performed an audit or review of the pro forma financial information itself, nor have we,~~ in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

Because pro forma financial information does not represent an entity's actual financial position, financial performance, or cash flows, it is not possible to express an audit opinion or review conclusion on pro forma financial information.

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

- ~~{The responsible party} has an appropriate basis~~ applicable criteria used by [the responsible party] for presenting-illustrating the significant effects directly attributable to the event or transaction are suitable; and
- ~~The related pro forma adjustments give appropriate effect to that identified basis; and~~
- The pro forma ~~column~~ financial information reflects the proper application of those ~~criteria~~ 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.

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

Opinion

In our opinion, [the pro forma financial information has, in all material respects, been properly compiled on the basis of 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 A473–A484). 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]