

AT-C Section 310*

Reporting on Pro Forma Financial Information

Source: SSAE No. 18.

Effective for practitioners' examination and review reports on pro forma financial information dated on or after May 1, 2017.

Introduction

.01 This section contains performance and reporting requirements and application guidance for a practitioner examining or reviewing pro forma financial information.

.02 This section does not apply when

- a practitioner is performing agreed-upon procedures related to pro forma financial information. Section 105, *Concepts Common to All Attestation Engagements*, and section 215, *Agreed-Upon Procedures Engagements*, are applicable to such engagements.
- certain requesting parties request a comfort letter or ask a practitioner to perform procedures on pro forma financial information in connection with an offering. AU-C section 920, *Letters for Underwriters and Certain Other Requesting Parties*, is applicable to such engagements.
- pro forma financial information is presented outside the basic financial statements but within the same document, and the practitioner is not engaged to report on the pro forma financial information. AU-C section 720, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, and AU-C section 925, *Filings With the U.S. Securities and Exchange Commission Under the Securities Act of 1933*, may be applicable to such engagements.
- for purposes of a more meaningful presentation, a transaction consummated after the balance sheet date is reflected in the historical financial statements (such as a revision of debt maturities or a revision of earnings per share calculations for a stock split).
- the applicable financial reporting framework requires the presentation of pro forma financial information in the financial statements or the accompanying notes. For example, generally accepted accounting principles require pro forma financial information in FASB *Accounting Standards Codification* (ASC) 805, *Business Combinations*, FASB ASC 250, *Accounting Changes and Error Corrections*, or, in some cases, pro forma financial information relating to subsequent events.

.03 In addition to complying with this section, a practitioner is required to comply with section 105 and either section 205, *Examination Engagements*,

* This section contains an "AT-C" identifier, instead of an "AT" identifier, to avoid confusion with references to existing "AT" sections, which remain effective through April 2017.

for examinations of pro forma financial information or section 210, *Review Engagements*, for reviews of pro forma financial information. In some cases, this section repeats or refers to requirements found in sections 105, 205, and 210 when describing those requirements in the context of an examination or review of pro forma financial information. Although not all the requirements in sections 105, 205, and 210 are repeated or referred to in this section, the practitioner is responsible for complying with all the requirements in sections 105, 205, and 210, as applicable.

Effective Date

.04 This section is effective for practitioners' examination and review reports on pro forma financial information dated on or after May 1, 2017.

Objectives of an Examination Engagement

.05 In conducting an examination of pro forma financial information, the objectives of the practitioner are to

- a. obtain reasonable assurance about whether, in accordance with (or based on) the criteria
 - i. management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), (Ref: par. .A1)
 - ii. and, in all material respects
 - (1) the related pro forma adjustments give appropriate effect to those assumptions, and
 - (2) the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts.
- b. express an opinion in a written report on the matters in paragraph .05a.

Objectives of a Review Engagement

.06 In conducting a review of pro forma financial information, the objectives of the practitioner are to

- a. obtain limited assurance about whether, in accordance with (or based on) the criteria, any material modifications should be made to
 - i. management's assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event),
 - ii. the related pro forma adjustments in order for them to give appropriate effect to those assumptions, or
 - iii. the pro forma amounts in order for them to reflect the proper application of those adjustments to the historical financial statement amounts.
- b. express a conclusion in a written report on the matters in paragraph .06a.

Definitions

.07 For the purposes of this section, the following terms have the meanings attributed as follows: (Ref: par. .A2–.A5)

Criteria for the preparation of pro forma financial information. The basis disclosed in the pro forma financial information that management used to develop the pro forma financial information, including the assumptions underlying the pro forma financial information. Paragraph .11 contains the attributes of suitable criteria for an examination or review of pro forma financial information.

Pro forma financial information. A presentation that shows what the significant effects on historical financial information might have been had a consummated or proposed transaction (or event) occurred at an earlier date.

Requirements

Preconditions for an Examination or Review Engagement

.08 In order to accept an attestation engagement to examine or review pro forma financial information, in addition to the preconditions for an attestation engagement included in sections 105 and 205, the practitioner¹

- a. should determine that the document that contains the pro forma financial information includes historical financial statements of the entity for the most recent year (or for the preceding year if financial statements for the most recent year are not yet available) or that such financial statements are readily available and, if pro forma financial information is presented for an interim period, the document also either includes historical interim financial information for that period (which may be presented in condensed form) or such interim information is readily available. In the case of a business combination, the document includes the relevant historical financial information for the significant constituent parts of the combined entity. (Ref: par. .A6–.A7)
- b. should determine that the historical financial statements of the entity (or in the case of a business combination, of each significant constituent part of the combined entity) on which the pro forma financial information is based, in the case of (Ref: par. .A7–.A8)
 - i. an examination of pro forma financial information, have been audited, or
 - ii. a review of pro forma financial information, have been audited or reviewed, (Ref: par. .A8)

and the audit report (or the review report, if issued) is included in the document containing the pro forma financial information (or is readily available) to the extent that the historical financial information is included in the document pursuant to paragraph .08a.

¹ Paragraphs .24–.28 of section 105, *Concepts Common to All Attestation Engagements*, and paragraph .06 of section 205, *Examination Engagements*.

- c. will be able to obtain an appropriate level of knowledge of the accounting and financial reporting practices of the entity (or in the case of a business combination, of each significant constituent part of the combined entity) that will enable the practitioner to perform the procedures necessary to report on the pro forma financial information.

.09 The level of service provided by the practitioner on the pro forma financial information should not exceed that provided on the related historical financial statements. An examination can be performed on pro forma financial information only if the related historical financial statements were audited. A review can be performed on pro forma financial information only if the related historical financial statements were audited or reviewed. In the case of a business combination, the level of service provided by the practitioner on the pro forma financial information should not exceed the lowest level of service provided on the underlying historical financial statements of any significant constituent part of the combined entity. (Ref: par. .A9)

Requesting a Written Assertion

.10 The practitioner should request from management a written assertion. If management refuses to provide a written assertion, the practitioner should withdraw from the engagement when withdrawal is possible under applicable law or regulation (Ref: par. .A10)

Assessing the Suitability of the Criteria

.11 As required by section 105, the practitioner should determine whether management has used suitable criteria in preparing and presenting the pro forma financial information.² In assessing the suitability of the criteria, the practitioner should determine whether the criteria include, at a minimum, that

- a. the financial information be extracted from audited or reviewed historical financial statements;
- b. the pro forma adjustments be
 - i. directly attributable to the transaction (or event),
 - ii. factually supportable (Ref: par. .A11),
 - iii. consistent with the entity's applicable financial reporting framework and its accounting policies under that framework; and
- c. the pro forma financial information be appropriately presented and include disclosures that enable intended users to understand the information conveyed.

Understanding the Entity's Accounting and Financial Reporting Policies

.12 The practitioner who is reporting on the pro forma financial information should have or obtain an appropriate level of knowledge of the accounting and financial reporting practices of the entity (or, in the case of a business combination, each significant constituent part of the combined entity). (Ref: par. .A12)

² Paragraph .25b(ii) of section 105.

Examination and Review Procedures

.13 The procedures the practitioner should apply to the assumptions and pro forma adjustments for either an examination or a review engagement are as follows:

- a.* Obtain an understanding of the underlying transaction (or event). (Ref: par. .A13)
- b.* Obtain an understanding of the accounting and financial reporting practices of each significant constituent part of the combined entity in a business combination that will enable the practitioner to perform the required procedures. If another practitioner has performed an audit or a review of the most recent annual or interim period for which the pro forma financial information is presented (or the most recent annual or interim period of a significant constituent part of the combined entity), the need, by a practitioner reporting on the pro forma financial information, for an understanding of such entity's accounting and financial reporting practices is not diminished. In such circumstances, the practitioner should consider whether the practitioner can acquire sufficient knowledge of these matters to perform the procedures necessary to report on the pro forma financial information.
- c.* Discuss with management their assumptions regarding the effects of the transaction (or event).
- d.* Evaluate whether pro forma adjustments are included for all significant effects directly attributable to the transaction (or event).
- e.* Obtain sufficient evidence in support of such adjustments. (Ref: par. .A14)
- f.* Evaluate whether management's assumptions that underlie the pro forma adjustments are presented in a sufficiently clear and comprehensive manner.
- g.* Evaluate whether the pro forma adjustments are consistent with each other and with the data used to develop them.
- h.* Evaluate whether computations of pro forma adjustments are mathematically correct and whether the pro forma column reflects the proper application of those adjustments to the historical financial statements.
- i.* Read the pro forma financial information and evaluate whether
 - i.* the underlying transaction (or event), the pro forma adjustments, the significant assumptions, and the significant uncertainties, if any, about those assumptions have been appropriately described.
 - ii.* the source of the historical financial information on which the pro forma financial information is based has been appropriately identified.

Written Representations in an Examination and Review Engagement

.14 In addition to the written representations from management required by section 205 for an examination engagement or by section 210 for a review

engagement, the practitioner should request written representations from management that³

- a. it is responsible for the assumptions used in determining the pro forma adjustments;
- b. the assumptions are factually supportable;
- c. the assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event); the related pro forma adjustments give appropriate effect to those assumptions; and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts
- d. the pro forma adjustments are consistent with the entity's applicable financial reporting framework and its accounting policies under that framework
- e. the pro forma financial information is appropriately presented and discloses the significant effects directly attributable to the transaction (or event). (See paragraph .11c.)

.15 In an examination or a review engagement, the practitioner should request from management the written representations required by section 205 or section 210, as applicable, and paragraph .14 of this section, even if the engaging party is not management. The alternative to obtaining the required written representations provided for in sections 205 and 210 is not permitted in an engagement to examine or review pro forma financial information.⁴ Management's refusal to furnish the written representations required by section 205 and paragraph .14 of this section constitutes a limitation on the scope of the examination engagement sufficient to preclude an unmodified opinion and may be sufficient to cause the practitioner to withdraw from the examination engagement, when withdrawal is possible under applicable laws and regulations.⁵ Management's refusal to furnish the written representations required by section 210 and paragraph .14 of this section constitutes a limitation on the scope of the review engagement sufficient to cause the practitioner to withdraw from the review engagement.⁶

Reporting

.16 The practitioner's report on pro forma financial information may be added to the practitioner's report on historical financial information, or it may appear separately. If the reports are combined and the date of completion of the procedures for the examination or review of the pro forma financial information is after the date the practitioner obtained the evidence necessary to issue a report on the audit or review of the historical financial information, the combined report should be dual-dated. (Ref: par. .A15)

Content of the Practitioner's Examination Report

.17 The practitioner's examination report on pro forma financial information should include the following, unless the practitioner is disclaiming an opinion, in which case, items .17j and .17k should be omitted: (Ref: par. .A16)

³ Paragraph .50 of section 205 and paragraph .33 of section 210, *Review Engagements*.

⁴ Paragraph .51 of section 205 and paragraph .34 of section 210.

⁵ Paragraphs .50, .55, and .A64 of section 205.

⁶ Paragraphs .33–.38c of section 210.

- a. A title that includes the word *independent*.
- b. An appropriate addressee as required by the circumstances of the engagement.
- c. A reference to the pro forma adjustments included in the pro forma financial information.
- d. A reference to management's description of the transaction (or event) to which the pro forma adjustments give effect. (The description is included in the pro forma financial information.)
- e. An identification or description of the pro forma financial information being reported on, including the point in time or period of time to which the measurement or evaluation of the pro forma financial information relates.
- f. An identification of the criteria against which the pro forma financial information was measured or evaluated.
- g. A reference to the financial statements from which the historical financial information is derived, a statement that such financial statements were audited, and, if applicable, whether the financial statements were audited by another auditor. (The report on pro forma financial information should refer to any modification in the auditor's report on the historical financial statements. In the case of a business combination, this paragraph applies to each significant constituent part of the combined entity.) (Ref: par. .A17)
- h. A statement that the pro forma adjustments are based on management's assumptions.
- i. A statement that identifies
 - i. management and its responsibility for the pro forma financial information.
 - ii. the practitioner's responsibility to express an opinion on the pro forma financial information based on the practitioner's examination.
- j. A statement that
 - i. the practitioner's examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii. those standards require that the practitioner plan and perform the examination to obtain reasonable assurance about whether, in accordance with (or based on) the criteria
 - (1) management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event),
 - (2) and, in all material respects,
 - (a) the related pro forma adjustments give appropriate effect to those assumptions, and
 - (b) the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts.
 - iii. an examination involves performing procedures to obtain evidence about

Subject Matter

- (1) management's assumptions, (Ref: par. .A18)
 - (2) the related pro forma adjustments, and
 - (3) the pro forma amounts.
- iv. the practitioner believes that the evidence the practitioner obtained is sufficient and appropriate to provide a reasonable basis for the practitioner's opinion.
- k. A description of the objectives and limitations of pro forma financial information
 - l. The practitioner's opinion about whether, in accordance with (or based on) the criteria
 - i. management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the transaction (or event), (Ref: par. .A19)
 - ii. and, in all material respects
 - (1) the related pro forma adjustments give appropriate effect to those assumptions, and
 - (2) the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts.
 - m. When the circumstances identified in section 205 are applicable, an alert, in a separate paragraph, that restricts the use of the report or describes the purpose of the report, as applicable.⁷
 - n. The manual or printed signature of the practitioner's firm.
 - o. The city and state where the practitioner practices.
 - p. The date of the report. (The report should be dated no earlier than the date on which the practitioner has obtained sufficient appropriate evidence on which to base the practitioner's opinion, including evidence that
 - i. the attestation documentation has been reviewed,
 - ii. the pro forma financial information has been prepared, and
 - iii. management has provided a written assertion.)

Content of the Practitioner's Review Report

.18 The practitioner's review report on pro forma financial information should include the following: (Ref: par. .A20)

- a. A title that includes the word *independent*.
- b. An appropriate addressee as required by the circumstances of the engagement.
- c. A reference to the pro forma adjustments included in the pro forma financial information.
- d. A reference to management's description of the transaction (or event) to which the pro forma adjustments give effect. (The description is included in the pro forma financial information.)

⁷ Paragraph .64 of section 205.

- e. An identification or description of the pro forma financial information being reported on, including the point in time or period of time to which the measurement or evaluation of the pro forma financial information relates.
- f. An identification of the criteria against which the pro forma financial information was measured or evaluated.
- g. A reference to the financial statements from which the historical financial information is derived and (Ref: par. .A21)
 - i. a statement that such financial statements were audited or reviewed, as applicable.
 - ii. if the practitioner issued a review report on the historical financial statements, a statement that a review report was issued, and, if applicable, whether the financial statements were reviewed by another accountant. (The report on pro forma financial information should refer to any modification in the accountant's report on the historical financial information. In the case of a business combination, this paragraph applies to each significant constituent part of the combined entity.)
- h. A statement that the pro forma adjustments are based on management's assumptions.
- i. A statement that identifies
 - i. management and its responsibility for the pro forma financial information.
 - ii. the practitioner's responsibility to express a conclusion on the pro forma financial information based on the practitioner's review.
- j. A statement that
 - i. the practitioner's review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.
 - ii. those standards require that the practitioner plan and perform the review to obtain limited assurance about whether, in accordance with (or based on) the criteria, any material modifications should be made to
 - (1) management's assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), (Ref: par. .A22)
 - (2) the related pro forma adjustments in order for them to give appropriate effect to those assumptions, or
 - (3) the pro forma amounts in order for them to reflect the proper application of those adjustments to the historical financial statement amounts.
 - iii. a review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether, in accordance with (or based on) the criteria, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), and, in all material respects, the related pro forma adjustments

- give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in order to express an opinion. Accordingly, the practitioner does not express such an opinion.
- iv. the practitioner believes that the practitioner's review provides a reasonable basis for the practitioner's conclusion.
 - k. a description of the objectives and limitations of pro forma financial information.
 - l. the practitioner's conclusion about whether, based on the review and in accordance with (or based on) the criteria, the practitioner is aware of any material modifications that should be made to
 - i. management's assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), (Ref: par. .A23)
 - ii. the related pro forma adjustments in order for them to give appropriate effect to those assumptions, or
 - iii. the pro forma amounts in order for them to reflect the proper application of those adjustments to the historical financial statement amounts.
 - m. When the circumstances identified in section 210 are applicable, an alert, in a separate paragraph, that restricts the use of the report or describes the purpose of the report, as applicable.⁸
 - n. The manual or printed signature of the practitioner's firm.
 - o. The city and state where the practitioner practices.
 - p. The date of the report. (The report should be dated no earlier than the date on which the practitioner has obtained sufficient appropriate review evidence on which to base the practitioner's conclusion, including evidence that
 - i. the attestation documentation has been reviewed,
 - ii. the pro forma financial information has been prepared, and
 - iii. management has provided a written assertion.)

Application and Other Explanatory Material

Objectives of an Examination Engagement (Ref: par. .05a[i])

.A1 For the purposes of this section, the responsible party is management of the entity for which the practitioner is reporting on pro forma financial information.

Definitions (Ref: par. .07)

Pro Forma Financial Information

.A2 Pro forma financial information is developed by applying pro forma adjustments to historical financial information. Appropriate pro forma

⁸ Paragraph .47c of section 210.

adjustments are based on management's assumptions, give effect to all significant effects directly attributable to the transaction (or event), and are stated on a basis consistent with the financial reporting framework of the reporting entity and its accounting policies under that framework.

.A3 Pro forma financial information is commonly used to show the effects of transactions such as the following:

- Business combination
- Change in capitalization
- Disposition of a significant portion of the business
- Change in the form of business organization or status as an autonomous entity
- Proposed sale of securities and the application of the proceeds

.A4 Adequately disclosed pro forma financial information

- is labeled as such to distinguish it from historical financial information.
- describes the transaction (or event) that is reflected in the pro forma financial information, the date on which the transaction (or event) is assumed to occur, the financial reporting framework of the historical financial statements, the source of the historical financial information on which it is based, the significant assumptions used to develop the pro forma adjustments, and any significant uncertainties about those assumptions.
- indicates that the pro forma financial information should be read in conjunction with related historical financial information and that the pro forma financial information is not necessarily indicative of the results (such as financial position and results of operations, as applicable) that would have been attained had the transaction (or event) actually taken place earlier.

.A5 Article 11 of Regulation S-X provides further guidance on the presentation of pro forma financial information included in filings with the SEC.

Preconditions for an Examination or Review Engagement (Ref: par. .08–.09)

.A6 For pro forma financial information included in an SEC Form 8-K, historical financial information previously included in an SEC filing would meet this requirement. Interim historical financial information may be presented as a column in the pro forma financial information.

.A7 Historical financial statements, historical interim financial information, and audit reports are deemed to be *readily available* if they are obtainable by a third-party user without any further action by the entity. (For example, historical interim financial information on an entity's website may be considered readily available, but being available upon request is not considered readily available.)

.A8 For entities within the PCAOB's jurisdiction as defined by the Sarbanes-Oxley Act of 2002, as amended, the review may be as defined in AU section 722, *Interim Financial Information*, of the PCAOB's interim auditing standards. For nonissuers, the review may be an interim or annual review as described in AR-C section 90, *Review of Financial Statements*, or an interim review as discussed in AU-C section 930, *Interim Financial Information*, when the

review of interim financial information meets the provisions of that section.⁹ Although AU section 722 does not require an accountant to issue a written report on a review of interim financial information, the SEC requires the report to be filed if, in any filing, the entity states that the interim financial information has been reviewed by an independent public accountant.¹⁰ [Revised, February 2017, to better reflect the AICPA Council Resolution designating the Public Company Accounting Oversight Board to promulgate technical standards.]

.A9 If the underlying historical financial statements of the entity (or, in the case of a business combination, of each significant constituent part of the combined entity) have been audited at year-end and reviewed at an interim date, the practitioner may perform an examination or a review of the pro forma financial information at year-end, but is limited to performing a review of the pro forma financial information at the interim date.

Requesting a Written Assertion (Ref: par. .10)

.A10 Paragraph .10 applies regardless of whether the responsible party is the engaging party.

Assessing the Suitability of the Criteria (Ref: par. .11b(ii))

.A11 Management is responsible for having factually supportable pro forma adjustments. The pro forma adjustments are factually supportable if the preponderance of the information supports each significant assumption underlying the adjustments.

Understanding the Entity's Accounting and Financial Reporting Policies (Ref: par. .12)

.A12 Procedures to obtain knowledge of each significant constituent part of the combined entity in a business combination may include communicating with other practitioners who have audited or reviewed the historical financial information on which the pro forma financial information is based. Matters that may be considered include

- accounting principles and financial reporting practices followed;
- transactions between the entities;
- material contingencies; and
- relevant industry, legal and regulatory, and other external factors pertaining to the entity and any acquiree or divestee.

Examination and Review Procedures (Ref: par. .13a and e)

.A13 An understanding of the underlying transaction (or event) may be obtained, for example, by reading relevant contracts and minutes of meetings of the board of directors and by making inquiries of appropriate officials of the entity, and, if considered necessary in the circumstances, of the entity acquired or to be acquired.

.A14 The evidence required to support the level of assurance obtained is a matter of professional judgment. Sections 205 and 210 provide guidance about

⁹ Paragraph .04 of AR-C section 90, *Review of Financial Statements*.

¹⁰ Paragraph .03 of AU section 722, *Interim Financial Information*.

the evidence to be obtained in examination and review engagements, respectively. Examples of evidence that the practitioner might consider obtaining are purchase, merger or exchange agreements, appraisal reports, debt agreements, employment agreements, actions of the board of directors, and existing or proposed legislation or regulatory actions.

Reporting (Ref: par. .16)

.A15 The following is an example of how the report would be dual dated:

February 15, 20X2, except for the paragraphs regarding pro forma financial information for which the date is March 20, 20X2.

Content of the Practitioner's Examination Report (Ref: par. .17)

.A16 The list of elements in paragraph .17 constitutes all the required elements for a practitioner's examination report on pro forma financial information, including the elements required by section 205.¹¹ Application guidance regarding the elements of an examination report is included in section 205.¹²

Reference to Financial Statements From Which Historical Financial Information is Derived (Ref: par. .17g)

.A17 If the historical financial information was previously included in an SEC filing, the practitioner's report would be modified to indicate that the historical financial statements are "incorporated by reference."

Statement That Examination Involves Performing Procedures to Obtain Evidence About Management's Assumptions (Ref: par. .17[iii][1])

.A18 Because a business combination accounted for in a manner similar to a pooling-of-interests combines the historical amounts of the combined entities retroactively, pro forma adjustments for a transaction that is not yet reflected in the historical financial statements or a proposed transaction generally affect only the equity section of the pro forma condensed balance sheet. Such business combinations would not ordinarily involve a choice of assumptions by management. Accordingly, a practitioner's report on a business combination that will be accounted for in a manner similar to a pooling-of-interests need not address management's assumptions unless the pro forma financial information includes adjustments to conform the accounting principles of the combining entities or gives effect to other transactions (for example, a new contractual arrangement or reduction in interest expense attributable to repayment of debt).

Opinion About Management's Assumptions (Ref: par. .17[i])

.A19 Uncertainty about whether the transaction (or event) will be consummated would not ordinarily require a modification of the practitioner's report.

Content of the Practitioner's Review Report (Ref: par. .18)

.A20 The list of elements in paragraph .18 constitutes all the required elements for a practitioner's report on a review of pro forma financial information,

¹¹ Paragraphs .63–.66 of section 205.

¹² Paragraphs .A78–.A101 of section 205.

including the elements required by section 210.¹³ Application guidance regarding the elements of a review report is included in section 210.¹⁴

Reference to Financial Statements From Which Historical Financial Information is Derived (Ref: par. .18g)

.A21 If the historical financial information was previously included in an SEC filing, the practitioner's report would be modified to indicate that the historical financial statements are "incorporated by reference."

Statement That the Practitioner Plans and Performs Review to Obtain Limited Assurance About Management's Assumptions (Ref: par. .18[iii][1])

.A22 Because a business combination accounted for in a manner similar to a pooling-of-interests combines the historical amounts of the combined entities retroactively, pro forma adjustments for a transaction that is not yet reflected in the historical financial statements or a proposed transaction generally affect only the equity section of the pro forma condensed balance sheet. Such business combinations would not ordinarily involve a choice of assumptions by management. Accordingly, a practitioner's report on a business combination that will be accounted for in a manner similar to a pooling-of-interests need not address management's assumptions unless the pro forma financial information includes adjustments to conform the accounting principles of the combining entities or gives effect to other transactions (for example, a new contractual arrangement or reduction in interest expense attributable to a repayment of debt).

Conclusion About Management's Assumptions (Ref: par. .18[i])

.A23 Uncertainty about whether the transaction (or event) will be consummated would not ordinarily require a modification of the practitioner's report.

¹³ Paragraphs .46–.49 of section 210.

¹⁴ Paragraphs .A61–.A80 of section 210.

.A24

Exhibit—Illustrative Practitioner's Reports for Examinations and Reviews of Pro Forma Financial Information

The illustrative practitioner's examination reports in this exhibit (examples 1, 3, 4, 5, and 6) meet the reporting requirements of section 205, *Examination Engagements*, and of paragraph .17 of this section.¹ A practitioner may use alternative language in drafting an examination report, provided that the language meets the applicable requirements of section 205 and paragraph .17 of this section.²

The illustrative practitioner's review reports in this exhibit (examples 2 and 3) meet the applicable reporting requirements of section 210, *Review Engagements*, and of paragraph .18 of this section.³ A practitioner may use alternative language in drafting a review report, provided that the language meets the applicable requirements of section 210 and paragraph .18 of this section.⁴

The language in these illustrative examination and review reports assume that one column of pro forma financial information is presented without presenting separate columns of historical financial information and pro forma adjustments.

Example 1: Practitioner's Examination Report on Pro Forma Financial Information: Unmodified Opinion

Independent Accountant's Report

[Appropriate Addressee]

We have examined the pro forma adjustments giving effect to the underlying transaction (or event) described in Note 1 and the application of those adjustments to the historical amounts in the accompanying pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended (pro forma financial information), based on the criteria in Note 1. The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were audited by other accountants, appearing elsewhere herein [or "*and are readily available*"]. The pro forma adjustments are based on management's assumptions described in Note 1. X Company's management is responsible for the pro forma financial information. Our responsibility is to express an opinion on the pro forma financial information based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether, based on the criteria in Note 1, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), and, in all material respects, the related pro forma adjustments give appropriate effect to

¹ Paragraphs .61–.84 of section 205, *Examination Engagements*.

² Paragraphs .61–.84 of section 205.

³ Paragraphs .44–.60 of section 210, *Review Engagements*.

⁴ See footnote 3.

those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts. An examination involves performing procedures to obtain evidence about management's assumptions, the related pro forma adjustments, and the pro forma amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the pro forma financial information, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the underlying transaction (or event) occurred at an earlier date. However, the pro forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction (or event) actually occurred at such earlier date.

In our opinion, based on the criteria in Note 1, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 2: Practitioner's Review Report on Pro Forma Financial Information: Unmodified Conclusion

Independent Accountant's Report

[Appropriate Addressee]

We have reviewed the pro forma adjustments giving effect to the transaction (or event) described in Note 1 and the application of those adjustments to the historical amounts in the accompanying pro forma condensed balance sheet of X Company as of March 31, 20X2, and the related pro forma condensed statement of income for the three months then ended (pro forma financial information), based on the criteria in Note 1. These historical condensed financial statements are derived from the historical unaudited financial statements of X Company, which were reviewed by us, and of Y Company, which were reviewed by other accountants,⁵ appearing elsewhere herein *[or "and are readily available"]*. The pro forma adjustments are based on management's assumptions as described

⁵ When one set of historical financial statements is audited and the other set is reviewed, wording similar to the following would be appropriate:

The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were reviewed by other accountants, appearing elsewhere herein *[or "and are readily available"]*.

in Note 1. X Company's management is responsible for the pro forma financial information. Our responsibility is to express a conclusion based on our review.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our review to obtain limited assurance about whether, based on the criteria in Note 1, any material modifications should be made to management's assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event); the related pro forma adjustments, in order for them to give appropriate effect to those assumptions; or the pro forma amounts, in order for them to reflect the proper application of those adjustments to the historical financial statement amounts. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether, based on the criteria, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the underlying transaction (or event) occurred at an earlier date. However, the pro forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction (or event) actually occurred at such earlier date.

Based on our review, we are not aware of any material modifications that should be made to management's assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, the related pro forma adjustments in order for them to give appropriate effect to those assumptions, or the pro forma amounts, in order for them to reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of March 31, 20X2, and the related pro forma condensed statement of income for the three months then ended, based on the criteria in Note 1.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 3: Practitioner's Examination Report on Pro Forma Financial Information at Year-End With a Review of Pro Forma Financial Information for a Subsequent Interim Date: Unmodified Opinion and Unmodified Conclusion

Independent Accountant's Report

[Appropriate Addressee]

We have examined the pro forma adjustments giving effect to the transaction (or event) described in Note 1 and the application of those adjustments to the historical amounts in the accompanying pro forma condensed balance sheet

of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended (pro forma financial information) based on the criteria in Note 1. The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were audited by other accountants, appearing elsewhere herein [or "*and are readily available*"]. The pro forma adjustments are based on management's assumptions described in Note 1. X Company's management is responsible for the pro forma financial information. Our responsibility is to express an opinion on the pro forma financial information based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether, based on the criteria in Note 1, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts. An examination involves performing procedures to obtain evidence about management's assumptions, the related pro forma adjustments, and the pro forma amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the pro forma financial information, whether due to fraud or error. We believe that the evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In addition, we have reviewed the pro forma adjustments and the application of those adjustments to the historical amounts in the accompanying pro forma condensed balance sheet of X Company as of March 31, 20X2, and the related pro forma condensed statement of income for the three months then ended (pro forma financial information), based on the criteria in Note 1. The historical condensed financial statements are derived from the historical financial statements of X Company, which were reviewed by us, and of Y Company, which were reviewed by other accountants,⁶ appearing elsewhere herein [or "*and are readily available*"]. The pro forma adjustments are based on management's assumptions as described in Note 1. X Company's management is responsible for the pro forma financial information. Our responsibility is to express a conclusion based on our review.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our review to obtain limited assurance about whether, based on the criteria in Note 1, any material modifications should be made to management's assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event); the related pro forma adjustments, in order for them to give appropriate effect to those assumptions; or the pro forma amounts, in order for them to reflect the proper application of those

⁶ When one set of historical financial statements is audited and the other set is reviewed, wording similar to the following would be appropriate:

The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were reviewed by other accountants, appearing elsewhere herein [or "*and are readily available*"].

adjustments to the historical financial statement amounts. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether, based on the criteria, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts, in order to express an opinion. Accordingly, we do not express such an opinion on the pro forma adjustments or on the application of such adjustments to the pro forma condensed balance sheet as of March 31, 20X2, and the pro forma condensed statement of income for the three months then ended. We believe that our review provides a reasonable basis for our conclusion.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the underlying transactions (or event) occurred at an earlier date. However, the pro forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction (or event) actually occurred at such earlier date.

In our opinion, based on the criteria in Note 1, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended.

Based on our review, we are not aware of any material modifications that should be made to management's assumptions in order for them to provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, the related pro forma adjustments in order for them to give appropriate effect to those assumptions, or the pro forma amounts in order for them to reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of March 31, 20X2, and the related pro forma condensed statement of income for the three months then ended based on the criteria in Note 1.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 4: Practitioner's Examination Report: Qualified Opinion Because of a Scope Limitation

Independent Accountant's Report

[Appropriate Addressee]

We have examined the pro forma adjustments giving effect to the transaction (or event) described in Note 1 and the application of those adjustments to the historical amounts in the accompanying pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed

statement of income for the year then ended (pro forma financial information), based on the criteria in Note 1. The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were audited by other accountants, appearing elsewhere herein [or "*and are readily available*"]. The pro forma adjustments are based upon management's assumptions described in Note 1. X Company's management is responsible for the pro forma financial information. Our responsibility is to express an opinion on the pro forma financial information based on our examination.

Except as discussed below, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether, based on the criteria in Note 1, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event), and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts. An examination involves performing procedures to obtain evidence about management's assumptions, the related pro forma adjustments, and the pro forma amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the pro forma financial information, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We were unable to perform the examination procedures we considered necessary with respect to the assumptions relating to the proposed loan described in Adjustment E in Note 1.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the underlying transaction (or event) occurred at an earlier date. However, the pro forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned transaction (or event) actually occurred at such earlier date.

In our opinion, based on the criteria in Note 1, except for the effects of such changes, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the assumptions relating to the proposed loan, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Example 5: Practitioner's Examination Report: Qualified Opinion Because of Reservations About the Propriety of the Assumptions

Independent Accountant's Report

[Appropriate Addressee]

[Same first three paragraphs as examination report in example 1.]

As discussed in Note 1 to the pro forma financial statements, the pro forma adjustments reflect management's assumption that X Division of the acquired company will be sold. The net assets of this division are reflected at their historical carrying amount; generally accepted accounting principles require these net assets to be recorded at fair value less cost to sell.

In our opinion, based on the criteria in Note 1, except for inappropriate valuation of the net assets of X Division, management's assumptions described in Note 1 provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, and, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended.

[Practitioner's signature]

[Practitioner's city and state]

[Date of the practitioner's report]

Example 6: Practitioner's Examination Report: Disclaimer of Opinion Because of a Scope Limitation

Independent Accountant's Report

[Appropriate Addressee]

We were engaged to examine the pro forma adjustments giving effect to the transaction (or event) described in Note 1 and the application of those adjustments to the historical amounts in the accompanying pro forma financial condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended (pro forma financial information), based on the criteria in Note 1. The historical condensed financial statements are derived from the historical financial statements of X Company, which were audited by us, and of Y Company, which were audited by other accountants, appearing elsewhere herein *[or "and are readily available"]*. The pro forma adjustments are based on management's assumptions described in Note 1. X Company's management is responsible for the pro forma financial information.

As discussed in Note 1 to the pro forma financial statements, the pro forma adjustments reflect management's assumptions that the elimination of duplicate facilities would have resulted in a 30 percent reduction in operating costs. Management could not supply us with sufficient evidence to support this assertion.

[The third paragraph in the practitioner's examination report in example 1 is intentionally omitted from the report with a disclaimer of opinion.]

Because we were unable to evaluate management's assumptions regarding the reduction in operating costs and other assumptions related thereto, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether, based on the criteria in Note 1, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction (or event) described in Note 1, or on whether, in all material respects, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma amounts reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma condensed balance sheet of X Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]
