

## Agenda Item 2



### Compilation of Pro Forma Financial Information

#### Objective of Agenda Item

To discuss the draft SSARS *Compilation of Pro Forma Financial Information*.

#### Background

At its meeting in May 2016, the ARSC voted to ballot to issue the proposed SSARS *Compilation of Pro Forma Financial Information* as a final standard. During the ballot process an issue was raised.

#### Item For Discussion With ARSC

##### Requirement to Include Historical Financial Statements in the Document That Contains Pro Forma Financial Information

Paragraph .07 of extant AR section 120, *Pro Forma Financial Information* reads as follows:

- .07** An engagement to report on compiled pro forma financial information may be undertaken as a separate engagement or in conjunction with a compilation of financial statements. The accountant may agree to compile pro forma financial information only if the document that contains the pro forma financial information includes (or incorporates by reference) the historical financial statements of the entity on which the pro forma financial information is based. Historical interim financial information may be presented in condensed form. In the case of a business combination, the document should include (or incorporate by reference) the appropriate historical financial information for the significant constituent parts of the combined entity.

Paragraph 7 of the draft proposed SSARS *Compilation of Pro Forma Financial Information* includes the following paragraph in the section “Acceptance and Continuance of Client Relationships”:

- 7.** As a condition for accepting an engagement to perform a compilation on pro forma financial information, in addition to the requirements in paragraph .25 of AR-C section 60, adapted as necessary, the accountant should obtain the agreement of management that it acknowledges and understands its responsibility (Ref: par. .A6)....

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- b. to include (or incorporate by reference) the complete 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) in the document that contains the pro forma financial information and, if pro forma financial information is presented for an interim period, to also include in the document either historical interim financial information for that period (which may be in condensed form) or that such interim information is readily available. In the case of a business combination, to include in the document the relevant historical financial information for the significant constituent parts of the combined entity. (Ref: par. .A8-.A10)...

A question has been raised as to whether it is sufficient to require management to acknowledge its responsibility to include the historical financial statements in the document that contains the pro forma financial information or, if the proposed SSARS should include a requirement for the accountant to determine that the historical financial statements are part of the document. For example, the following is from AT-C section 310 *Reporting on Pro Forma Financial Information*:

**.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 practitioner

- 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)...

**Action Requested of ARSC**

ARSC is asked to consider whether a requirement should be added to the proposed SSARS *Compilation of Pro Forma Financial Information* to require the accountant to determine that the document that contains the pro forma financial information includes the historical financial statements of the entity.

**Agenda Items Presented:**

None