

issued, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the practitioner's report, may have caused the practitioner to amend the report, the practitioner shall:

- (a) Discuss the matter with management or those charged with governance, as appropriate;
- (b) Determine whether the financial statements need amendment; and
- (c) If so, inquire how management intends to address the matter in the financial statements.

If management does not amend the financial statements in circumstances where the practitioner believes they need to be amended, and the practitioner's report has already been provided to the entity, the practitioner shall notify management and those charged with governance not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the practitioner shall take appropriate action to seek to prevent reliance on the practitioner's report.

Written Representations

The practitioner shall request management to provide a written representation that management has fulfilled its responsibilities described in the agreed terms of engagement.

The written representation shall include that: -

- (a) Management has fulfilled its responsibility for the preparation of financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, and has provided the practitioner with all relevant information and access to information as agreed in the terms of the engagement; and
- (b) All transactions have been recorded and are reflected in the financial statements

The practitioner shall also request management's written representations that management has disclosed to the practitioner:

1. The identity of the entity's related parties and all the related party relationships and transactions of which management is aware;
 2. Significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;
 3. Known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's financial statements;
 4. All information relevant to use of the going concern assumption in the financial statements;
 5. That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed;
 6. Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures; and
 7. Material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration.
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If management does not provide one or more of the requested written representations, the practitioner shall:

- (a) Discuss the matter with management and those charged with governance, as appropriate;
- (b) Re-evaluate the integrity of management, and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and
- (c) Take appropriate actions, including determining the possible effect on the conclusion in the practitioner's report in accordance with this SRE.

The practitioner shall disclaim a conclusion on the financial statements, or withdraw from the engagement if withdrawal is possible under applicable law or regulation, as appropriate, if:

- (a) The practitioner concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable; or
- (b) Management does not provide the required representations.

Evaluating evidence obtained from the procedures performed

The practitioner shall evaluate whether sufficient appropriate evidence has been obtained from the procedures performed and, if not, the practitioner shall perform other procedures judged by the practitioner to be necessary in the circumstances to be able to form a conclusion on the financial statements.

In some circumstances, the practitioner may not have obtained the evidence that the practitioner had expected to obtain through the design of primarily inquiry and analytical procedures and procedures addressing specific circumstances.

In these circumstances, the practitioner considers that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the financial statements. The practitioner may:

- Extend the work performed or
- Perform other procedures judged by the practitioner to be necessary in the circumstances.

If the practitioner is not able to obtain sufficient appropriate evidence to form a conclusion, the practitioner shall discuss with management and those charged with governance, as appropriate, the effects such limitations have on the scope of the review.

Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the practitioner is able to obtain sufficient appropriate evidence by performing other procedures.

Limitations on the scope of the review imposed by management may have other implications for the review, such as for the practitioner's consideration of areas where the financial statements are likely to be materially misstated, and engagement continuance.

Forming the Practitioner's Conclusion on the Financial Statements

Consideration of the Applicable Financial Reporting Framework in Relation to the Financial Statements	<p>In forming the conclusion on the financial statements, the practitioner shall:</p> <ol style="list-style-type: none"> (a) Evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework; (b) Consider whether, in the context of the requirements of the applicable financial reporting framework and the results of procedures performed: <ol style="list-style-type: none"> (i) The terminology used in the financial statements, including the title of each financial statement, is appropriate; (ii) The financial statements adequately disclose the significant accounting policies selected and applied; (iii) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate; (iv) Accounting estimates made by management appear reasonable; (v) The information presented in the financial statements appears relevant, reliable, comparable, and understandable; and (vi) The financial statements provide adequate disclosures to enable the intended users to understand the effects of material transactions and events on the information conveyed in the financial statements. <p>In forming conclusion, the practitioner shall also consider the impact of: -</p> <ol style="list-style-type: none"> (a) Uncorrected misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole (b) Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. <p>If the financial statements are prepared using a fair presentation framework, the practitioner's consideration shall also include: -</p> <ol style="list-style-type: none"> (a) The overall presentation, structure and content of the financial statements in accordance with the applicable framework and (b) Whether the financial statements, including the related notes, appear to represent the underlying transactions and events in a manner that achieves fair presentation or gives a true and fair view, as appropriate, in the context of the financial statements as a whole.
Form of the Conclusion	The practitioner's conclusion on the financial statements, whether unmodified or modified, shall be expressed in the appropriate form in the context of the financial reporting framework applied in the financial statements.
Unmodified	The practitioner shall express an unmodified conclusion in the practitioner's report on the financial

<p>Conclusion</p>	<p>statements as a whole when the practitioner has obtained limited assurance to be able to conclude that nothing has come to the practitioner’s attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.</p> <p>When the practitioner expresses an unmodified conclusion, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:</p> <p>(a) “Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework,” (for financial statements prepared using a fair presentation framework); or</p> <p>(b) “Based on our review, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework,” (for financial statements prepared using a compliance framework).</p>
<p>Modified Conclusion</p>	<p>The practitioner shall express a modified conclusion in the practitioner’s report on the financial statements as a whole when:</p> <p>(a) The practitioner determines, based on the procedures performed and the evidence obtained, that the financial statements are materially misstated; or</p> <p>(b) The practitioner is unable to obtain sufficient appropriate evidence in relation to one or more items in the financial statements that are material in relation to the financial statements as a whole.</p> <p>When the practitioner modifies the conclusion expressed on the financial statements, the practitioner shall:</p> <p>(a) Use the heading “Qualified Conclusion,” “Adverse Conclusion” or “Disclaimer of Conclusion,” as appropriate, for the conclusion paragraph in the practitioner’s report; and</p> <p>(b) Provide a description of the matter giving rise to the modification, under an appropriate heading (for example, “Basis for Qualified Conclusion,” “Basis for Adverse Conclusion” or “Basis for Disclaimer of Conclusion,” as appropriate), in a separate paragraph in the practitioner’s report immediately before the conclusion paragraph (referred to as the basis for conclusion paragraph).</p> <p>EXAMPLES:</p> <ul style="list-style-type: none"> • “Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework,” (for financial statements prepared using a fair presentation framework); or • “Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework,” (for financial statements prepared using a fair presentation framework); or <p>In the basis for conclusion paragraph, in relation to material misstatements that give rise to either a qualified conclusion or an adverse conclusion, the practitioner shall:</p> <p>(a) Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which case the practitioner shall so state;</p> <p>(b) Explain how disclosures are misstated if the material misstatement relates to narrative disclosures; or</p> <p>(c) Describe the nature of omitted information if the material misstatement relates to the non-disclosure of information required to be disclosed.</p> <p><i>Inability to obtain sufficient appropriate evidence</i></p> <p>If the practitioner is unable to form a conclusion on the financial statements due to inability to obtain</p>

	<p>sufficient appropriate evidence, the practitioner shall:</p> <ul style="list-style-type: none"> (a) Express a qualified conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive; or (b) Disclaim a conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. <p>Example: “Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework,” (for financial statements prepared using a fair presentation framework);</p>
<p>The Practitioner’s Report</p>	<p>The practitioner’s report for the review engagement shall be in writing, and shall contain the following elements:</p> <ul style="list-style-type: none"> (a) A title, which shall clearly indicate that it is the report of an independent practitioner for a review engagement; (b) The addressee(s), as required by the circumstances of the engagement; (c) An introductory paragraph that: <ul style="list-style-type: none"> (i) Identifies the financial statements reviewed, including identification of the title of each of the statements contained in the set of financial statements and the date and period covered by each financial statement; (ii) Refers to the summary of significant accounting policies and other explanatory information; and (iii) States that the financial statements have been reviewed; (d) A description of the responsibility of management for the preparation of the financial statements, including an explanation that management is responsible for: <ul style="list-style-type: none"> (i) Their preparation in accordance with the applicable financial reporting framework including, where relevant, their fair presentation; (ii) Such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (e) If the financial statements are special purpose financial statements: <ul style="list-style-type: none"> (i) A description of the purpose for which the financial statements are prepared and, if necessary, the intended users, or reference to a note in the special purpose financial statements that contains that information; and (ii) If management has a choice of financial reporting frameworks in the preparation of such financial statements, a reference within the explanation of management’s responsibility for the financial statements to management’s responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances; (f) A description of the practitioner’s responsibility to express a conclusion on the financial statements including reference to this SRE and, where relevant, applicable law or regulation; (g) A description of a review of financial statements and its limitations, and the following statements: <ul style="list-style-type: none"> (i) A review engagement under this SRE is a limited assurance engagement; (ii) The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained; and (iii) The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing (SAs), and, accordingly, the practitioner does not express an audit opinion on the financial statements; (h) A paragraph under the heading “Conclusion” that contains: <ul style="list-style-type: none"> (i) The practitioner’s conclusion on the financial statements as a whole, as appropriate; and

	<ul style="list-style-type: none"> (ii) A reference to the applicable financial reporting framework used to prepare the financial statements. (i) When the practitioner's conclusion on the financial statements is modified: <ul style="list-style-type: none"> (i) A paragraph under the appropriate heading that contains the practitioner's modified conclusion, as appropriate; and (ii) A paragraph, under an appropriate heading, that provides a description of the matter(s) giving rise to the modification; (j) A reference to the practitioner's obligation under this SRE to comply with relevant ethical requirements; (k) The date of the practitioner's report; (l) The practitioner's signature; and (m) The place of signature.
Emphasis of Matter Paragraphs in the Practitioner's Report	<p><i>Emphasis of Matter Paragraphs</i></p> <p>The practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the practitioner's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. In such cases, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report, provided the practitioner has obtained sufficient appropriate evidence to conclude that the matter is not likely to be materially misstated as presented in the financial statements. Such paragraph shall refer only to information presented or disclosed in the financial statements.</p>
Other Matter Paragraphs	<p>If the practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the practitioner's judgment, is relevant to users' understanding of the review, the practitioner's responsibilities or the practitioner's report and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the practitioner's report with the heading "Other Matter" or other appropriate heading.</p>
Other Reporting Responsibilities	<p>A practitioner may be requested to address other reporting responsibilities in the practitioner's report on the financial statements that are in addition to the practitioner's responsibilities under this SRE to report on the financial statements. In such situations, those other reporting responsibilities shall be addressed by the practitioner in a separate section in the practitioner's report headed "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the context of the section, following the section of the report headed "Report on the Financial Statements."</p>
Documentation	<p>The preparation of documentation for the review provides evidence that the review was performed in accordance with this SRE along with legal and regulatory requirements where relevant and a sufficient and appropriate record of the basis for the practitioner's report.</p> <p>The practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand:</p> <ul style="list-style-type: none"> (a) The nature, timing, and extent of the procedures performed to comply with this SRE and applicable legal and regulatory requirements (b) Results obtained from the procedures, and the practitioner's conclusions formed on the basis of those results and (c) Significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions. <p>While documenting the nature, timing and extent of procedures performed as required in this SRE, the practitioner shall record:</p> <ul style="list-style-type: none"> (a) Who performed the work and the date such work was completed and (b) Who reviewed the work performed for the purpose of quality control for the engagement, and the period and extent of the review. <p>The practitioner shall also document discussions with the management, TCWG, and others as relevant to the performance of the review of significant matters arising during the engagement, including the</p>

nature of those matters.

If, in the course of the engagement, the practitioner identified information that is inconsistent with the practitioner's findings, the practitioner shall document how the inconsistency was addressed.

ILLUSTRATION

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have reviewed the accompanying financial statements of ABC and Company, which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Accounting Standards and other accounting principles generally accepted in India, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with Standard on Review Engagements (SRE) 2400 (Revised), Engagements to Review Historical Financial Statements. SRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with SRE 2400 (Revised) is a limited assurance engagement.

The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not give a true and fair view of (or *present fairly, in all material respects,*) the financial position of ABC & Company as at March 31, 20XX, and of its financial performance and cash flows for the year then ended, in accordance with the Accounting Standards.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the practitioner's report will vary depending on the nature of the practitioner's other reporting responsibilities.]

For XYZ and Co.,
Chartered Accountants
Firm's Registration Number

Signature
(Name of Member signing the Review Report)
(Designation)
Membership Number

Place of Signature

Date

2 SRE 2410 - REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY INDEPENDENT AUDITOR OF THE ENTITY

Interim Financial Information (IFI)	IFI is either a complete or condensed set of financial statements for a <i>period shorter</i> than entity's FY.
SRE 2410 is applicable when	<ul style="list-style-type: none"> ▪ Independent auditor of the entity is also engaged to review the IFI. ▪ He is having understanding of entity and its environment and I.C. Thus, he can review IFI with much ease.
General Principles of review of IFI	<ul style="list-style-type: none"> ▪ Comply with Code of Ethics issued by ICAI. ▪ Implement quality control procedures as per SQC. ▪ Maintain professional skepticism
Objectives of This SRE	<ul style="list-style-type: none"> ▪ Enable auditor to express a conclusion whether, ▪ On the basis of the review, ▪ Anything has come to auditor's attention, ▪ That causes auditor to believe, ▪ That IFI is not prepared, in all material respects, in accordance with applicable FRF. <p>The auditor makes inquiries and performs analytical and other review procedures in order to reduce to a moderate level risk of expressing an inappropriate conclusion when the interim financial information is materially misstated.</p> <p>The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with Standards on Auditing (SAs).</p> <p>A review of interim financial information does not provide a basis for expressing an opinion on whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework.</p> <p>A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement.</p> <p>A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.</p> <p>A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.</p>
Agreeing the Terms of Engagement	<p>Terms of Engagement shall cover the following:</p> <ol style="list-style-type: none"> 1. Objective of a review of IFI. 2. Scope of review. 3. Management's responsibility for: <ul style="list-style-type: none"> ▪ IFI. ▪ Establishing and maintaining effective I.C. relevant to preparation of IFI. ▪ Making all financial records & related information available to auditor. 4. Management's agreement to provide WR to auditor to confirm representations made orally during review, as well as representations implicit in entity's records. 5. Anticipated form and content of report to be issued, including identity of addressee of report. 6. Management's agreement that where any document containing IFI indicates that IFI has been reviewed by entity's auditor, review report will also be included in document.

Procedures for a Review

Understanding the entity and Its environment

- The auditor should have an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information, sufficient to plan and conduct the engagement so as to be able to:
 - (a) Identify types of potential material misstatements and consider likelihood of occurrence.
 - (b) Determine the inquiries, analytical & other review procedures to be performed to enable the auditor to form a conclusion on IFI.
- He shall update understanding obtained during annual audits wrt preparation of annual financial statements.
- Determine nature of review procedures required for components.

Some of the procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:

- Reading the documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period interim financial information.
- Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial statements.
- Reading the most recent annual and comparable prior period interim financial information.
- Considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements.
- Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements.
- Considering significant financial accounting and reporting matters that may be of continuing significance such as material weaknesses in internal control.
- Considering the results of any audit procedures performed with respect to the current year's financial statements.
- Considering the results of any internal audit performed and the subsequent actions taken by the management.
- Inquiring of management about the results of management's assessment of the risk that the interim financial information may be materially misstated as a result of fraud.
- Inquiring of management about the effect of changes in the entity's business activities.
- Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of interim financial information.
- Inquiring of management of the process by which the interim financial information has been prepared and the reliability of the underlying accounting records to which the interim financial information is agreed or reconciled.

Inquires, Analytical and Other Review Procedures

- Auditor shall make inquiries and perform Analytical and Other Review Procedures.
- Ordinarily auditor is not required to perform inspection/ observation/ confirmation.
- Direct external confirmations is also not necessary.
- A review of IFI ordinarily does not require corroborating the inquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an inquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether IFI is not prepared as per FRF and the auditor believes the entity's lawyer may have pertinent information.

The auditor ordinarily performs the following procedures: -

1. Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information.
2. Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
3. Communicating, where appropriate, with other auditors who are performing a review of the interim financial information of the reporting entity's significant components.
4. **Inquiring of members of management responsible for financial and accounting matters, and others as appropriate about the following:**
 - ◆ Whether the interim financial information has been prepared and presented in accordance with the applicable financial reporting framework. Whether there have been any changes in accounting principles or in the methods of applying them.
 - ◆ Whether any new transactions have necessitated the application of a new accounting principle.
 - ◆ Whether the interim financial information contains any known uncorrected misstatements.
 - ◆ Unusual or complex situations that may have affected the interim financial information, such as a business combination or disposal of a segment of the business.
 - ◆ Significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity.
 - ◆ Whether related party transactions have been appropriately accounted for and disclosed in the interim financial information.
 - ◆ Significant changes in commitments and contractual obligations.
 - ◆ Significant changes in contingent liabilities including litigation or claims.
 - ◆ Compliance with debt covenants.
 - ◆ Matters about which questions have arisen in the course of applying the review procedures.
 - ◆ Significant transactions occurring in the last several days of the interim period or the first several days of the next interim period.
 - ◆ Knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the interim financial information.

	<ul style="list-style-type: none"> ◆ Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's interim financial information communicated by employees, former employees, analysts, regulators, or others. ◆ Knowledge of any actual or possible non-compliance with laws and regulations that could have a material effect on the interim financial information. <ol style="list-style-type: none"> 5. Applying analytical procedures to the interim financial information designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the interim financial information. 6. Reading the interim financial information, and considering whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework. <hr/> <p>Collection of Evidences</p> <ul style="list-style-type: none"> ■ Obtain evidence that the IFI agrees or reconciles with the underlying accounting records by tracing the interim financial information to: (a) The accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and (b) Other supporting data in the entity's records as necessary. ■ Examine whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the IFI. ■ Inquire about management's assessment of going concern. When, as a result of this inquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should: (a) Inquire of management as to its plans for future actions based on its going concern assessment, the feasibility of these plans, and whether management believes that the outcome of these plans will improve the situation and (b) Consider the adequacy of the disclosure about such matters in the interim financial information. ■ However, it is not ordinarily necessary for the auditor to corroborate the feasibility of management's plans and whether the outcome of these plans will improve the situation. ■ When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for IFI to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report
<p>Evaluation of Misstatements</p>	<ul style="list-style-type: none"> ■ The auditor should evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial information. ■ Misstatements which come to the auditor's attention, including inadequate disclosures, are evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. ■ The auditor exercises professional judgment in evaluating the materiality of any misstatements that the entity has not corrected.
<p>Representations from Management</p>	<p>For following:</p> <ol style="list-style-type: none"> 1. It acknowledges its responsibility for internal control to prevent and detect fraud and error. 2. IFI is prepared and presented in accordance with applicable FRF. 3. Uncorrected misstatements are immaterial, both individually and in the aggregate, to IFI. 4. It has disclosed to the auditor: <ul style="list-style-type: none"> ■ All significant facts relating to any frauds or suspected frauds known to management affecting the entity.

	<ul style="list-style-type: none"> ▪ Results of its assessment of the risk of fraud. ▪ All known actual or possible non-compliance with laws and regulations affecting the IFI. ▪ All significant events that have occurred subsequent to the balance sheet date upto the date of the review report that may require adjustment to or disclosure in IFI.
<p>Auditor's Responsibility for Accompanying Information</p>	<p>(a) He shall read the other information accompanying the IFI to consider whether it is inconsistent with the IFI.</p> <p>(b) If a matter comes to the auditor's attention that causes the auditor to believe that the other information is misstated, he shall discuss the matter with the entity's management. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, the auditor considers taking further action as appropriate, such as notifying those charged with governance and obtaining a legal advice.</p>
<p>Communication</p>	<ul style="list-style-type: none"> ▪ When a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to IFI, the auditor should communicate this matter as soon as practicable to the appropriate level of management. ▪ When management does not respond appropriately within a reasonable period of time, the auditor should inform those charged with governance. The communication is made as soon as practicable, either orally or in writing. ▪ If the information is communicated orally, the auditor documents the communication. ▪ If TCWG do not respond appropriately within a reasonable period, the auditor should consider: <ol style="list-style-type: none"> (a) Whether to modify the report or (b) The possibility of withdrawing from the engagement and (c) The possibility of resigning from the appointment to audit the annual financial statements.
<p>Reporting – Elements</p>	<ol style="list-style-type: none"> (a) An appropriate title. (b) An addressee, as required by the circumstances of the engagement. (c) Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information. (d) If the interim financial information comprises a complete set of general-purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework. (e) In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework. (f) A statement that the auditor is responsible for expressing a conclusion on the interim financial information based on the review. (g) A statement that the review of the interim financial information was conducted in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity," and a statement that that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. (h) A statement that a review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed. (i) If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve

	<p>fair presentation, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information does not give a true and fair view, or does not present fairly, in all material respects, in accordance with the applicable financial reporting framework.</p> <p>(j) In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework</p> <p>(k) The date of the report.</p> <p>(l) Place of Signature.</p> <p>(m) The auditor's signature and membership number assigned by the Institute of Chartered Accountants of India (ICAI).</p> <p>(n) The Firm's registration number of the member of the Institute, wherever applicable, as allotted by ICAI</p>
<p>Note: UDIN is also to be generated for Review Engagements.</p>	
<p>Departure from applicable FRF</p>	<ul style="list-style-type: none"> ▪ If a matter has come to the auditor's attention ▪ that causes the auditor to believe that a material adjustment should have been made to the IFI ▪ so that it can comply with applicable FRF ▪ then, express a qualified or adverse conclusion
<p>Limitation on Scope</p>	<ul style="list-style-type: none"> ▪ If he is unable to complete review, ▪ Communicate the reason in writing to appropriate level of management/TCWG, and ▪ Consider whether it is appropriate to issue a report. <p>Limitation on Scope Imposed by Management</p> <p>If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor requests the removal of that limitation.</p> <p>If management refuses to do so, the auditor is unable to complete the review and express a conclusion.</p> <p>In such cases, the auditor communicates, in writing, to the appropriate level of management and TCWG, reason why the review cannot be completed.</p> <p>The auditor also considers the legal and regulatory responsibilities, including whether there is a requirement for the auditor to issue a report.</p> <p>If there is such a requirement, the auditor disclaims a conclusion, and provides in the review report the reason why the review cannot be completed.</p>
<p>Going Concern and Significant Uncertainties</p>	<ul style="list-style-type: none"> ▪ If a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information the auditor modifies the review report by adding an emphasis of matter paragraph. ▪ The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. ▪ If the material uncertainty still exists and adequate disclosure is made in the IFI, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty. ▪ If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the IFI, the auditor should express a qualified or adverse conclusion. The report should include specific reference to the fact that there is such a material uncertainty.

Documentation	The auditor should prepare review documentation that is sufficient and appropriate to provide a basis for the auditor’s conclusion and to provide evidence that the review was performed in accordance with this SRE and applicable legal and regulatory requirements
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Example of Unqualified Review Reports on Interim Financial Information consists of complete Set of General purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework

Report on Review of Interim Financial Information

(Appropriate addressee)

Introduction

We have reviewed the accompanying balance sheet of ABC Entity as of June 30, 20X1 and the related statements of profit & loss and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with _____ [indicate applicable FRF]. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with SRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or “does not present fairly, in all material respects,”) the State of Affairs of the entity as at June 30, 20X1, and of its Results of Operations and its cash flows for the three month period then ended in accordance with _____ [applicable FRF]

For ABC and Co.,
Chartered Accountants
Firm’s Registration Number

Auditor’s Signature
(Name of Member signing the Audit Report)
(Designation)

Membership Number

Place of Signature

Date

SUMMARY OF SRE -2410

Principles	All including independence
Objective	<p>To express Conclusion whether anything has come to his attention that causes him to believe that IFI is not prepared as per applicable FRF.</p> <p style="text-align: center;">Terms shall specifically include the <u>responsibility</u> of management & that of auditor.</p> <p style="text-align: center;">↓</p> <p style="text-align: center;">Perform Inquiry, analytical & other review procedures</p> <p style="text-align: center;">↓</p> <p style="text-align: center;">obtain W.R w.r.t their responsibilities, <u>compliance</u> with FRF & full disclosure to the auditor</p> <p style="text-align: center;">↓</p> <p style="text-align: center;">Evaluate effect of misstatements</p>

	↓ Read other information accompanying IFI to examine any inconsistency every therein ↓ Finally frame a Conclusion
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Auditors report on review of IFI

- (1) Title
- (2) Addressee
- (3) Introduction
- (4) statement that management is responsible for preparation & presentation of IFI as per FRF & auditor is responsible for expressing a conclusion
- (5) Reference to this SRE – 2410
- (6) statement that it is less in scope than in audit & thus no audit opinion is expressed
- (7) conclusion
- (8) Date
- (9) Place
- (10) Signature

→ Departure from FRF → Qualified/Adverse conclusion

→ limitation on scope → Resign or don't express conclusion.

DIFFERENCE BETWEEN AUDIT AND REVIEW

<i>AUDIT</i>	<i>REVIEW</i>
1. Audit is a type of reasonable assurance engagement providing reasonable level of assurance.	1. Review is a type of limited assurance engagement providing a lower level of assurance than reasonable assurance engagement.
2. It performs elaborate and extensive procedures including tests of controls and substantive procedures.	2. It performs fewer procedures primarily focusing on inquiry and analytical procedures.
3. It draws reasonable conclusions on the basis of sufficient appropriate evidence.	3. It draws limited conclusions on the basis of sufficient appropriate evidences required for this kind of engagement.
4. It provides an assurance opinion. The language of assurance opinion is positively worded.	4. It provides an assurance conclusion. The language of assurance conclusion is negatively worded.
5. Many SAs are applicable on Audit Engagements, which are interrelated.	5. Review engagements are conducted either in accordance with SRE 2400 or SRE 2410.

Chapter 11

PROSPECTIVE FINANCIAL INFORMATION AND OTHER ASSURANCE SERVICES

1. SAE 3400 –THE EXAMINATION OF PROSPECTIVE FINANCIAL INFORMATION

Prospective financial information	It means financial information based on the assumptions about the events that may occur in future and possible action by management. It is, thus, a subjective concept requiring judgement. It may be a forecast, a projection or a combination of both.	
	1. Forecast	It is based upon assumptions which management expects to take place.(Best estimate assumptions)
	2. Projection	It is based on <ul style="list-style-type: none"> ▪ Hypothetical assumptions which are not necessarily expected to take place; or ▪ Mixture of best estimate and hypothetical assumptions.
Scope of SAE 3400	<ul style="list-style-type: none"> ▪ To establish standard and provide guidance on engagements to examine and report on PFI including examination procedures for best-estimate and hypothetical assumptions. ▪ This SAE does not apply to the examination of PFI expressed in general or narrative terms, For example, in management’s discussion and analysis in an entity’s annual report, though many of the procedures outlined herein may be suitable for such an examination. ▪ Further, the principles laid down in the other Standards on Auditing, should be used by the auditor, to the extent practicable, in applying this SAE. ▪ The term “auditor” is used throughout this SAE but it does not imply that a member performing such services need necessarily be the statutory auditor of the entity’s financial statements. 	
Nature of assurance regarding PFI	<ul style="list-style-type: none"> ▪ Auditor may be asked to examine and report on it to enhance its credibility. ▪ It relates to events and actions that have not yet occurred and might not occur. ▪ Evidence are future oriented and thus speculative. ▪ Auditor is not in a position to express opinion as to whether the results shown in prospective financial information will be achieved. ▪ He can provide only moderate assurance (Negative assurance) 	
Management’s responsibility	Management is responsible for preparation of PFI including: <ul style="list-style-type: none"> ▪ Identification and disclosure of PFI; ▪ The basis of forecast; ▪ Underlying assumptions. 	

<p>Acceptance of engagement</p>	<ul style="list-style-type: none"> ▪ He should not accept or should withdraw from engagement when assumptions are clearly unrealistic or when he believes that it will be inappropriate for its intended use. The auditor should consider the extent to which reliance on the entity's historical financial information is justified. ▪ Auditor and client should agree on the terms of the engagement. <p>Before accepting an engagement to examine prospective financial information, the auditor would consider:</p> <ul style="list-style-type: none"> • The intended use of the information; • Whether the information will be for general or limited distribution; • The nature of the assumptions, that is, whether they are best estimates or hypothetical Assumptions; • The elements to be included in the information; and • The period covered by the information.
<p>Knowledge of business</p>	<p>Auditor should obtain knowledge of the business so that he can be able to evaluate whether all required assumption have been identified. He should consider the extent of reliance that can be placed on entity's historical financial information (whether it was audited/reviewed, etc.)</p>
<p>Period covered</p>	<p>Auditor should consider the time period covered by prospective financial information. Assumption becomes more speculative if length of period covered, increases.</p>
<p>Duty of the member to obtain evidence</p>	<p>In an engagement to examine prospective financial information, the auditor should obtain sufficient appropriate evidence as to whether:</p> <p>(a) management's best-estimate assumptions on which the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information;</p> <p>(b) the prospective financial information is properly prepared on the basis of the assumptions;</p> <p>(c) the prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions; and</p> <p>(d) the prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles</p>
<p>Examination procedures</p>	<p>While determining NTE of Audit procedure, he should consider –</p> <ul style="list-style-type: none"> ▪ Knowledge obtained during any previous engagement ▪ Management's competence ▪ Likelihood of material misstatement ▪ Extent to which PFI is affected by management's judgement ▪ The sources of information considered by the management for the purpose, their adequacy, reliability of the underlying data, including data derived from third parties, such as industry statistics, to support the assumptions ▪ Stability of entity's business ▪ The engagement team's experience with the business and the industry in which the entity operates and with reporting on prospective financial information

<p>Presentation and Disclosure</p>	<p>When assessing the presentation and disclosure of PFI and the underlying assumptions, in addition to the specific requirements of any relevant statutes, regulations as well as the relevant professional pronouncements, it needs to be considered whether:</p> <p>(a) the presentation of PFI is informative and not misleading</p> <p>(b) the accounting policies are clearly disclosed in the notes to the PFI</p> <p>(c) the assumptions are adequately disclosed in the notes to the PFI. It needs to be clear whether assumptions are best-estimates or hypothetical and, when assumptions are made in areas that are material and are subject to a high degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed</p> <p>(d) the date as of which the PFI was prepared is disclosed. Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time</p> <p>(e) the basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the PFI are expressed in terms of a range and</p> <p>(f) if there is any change in the accounting policy of the entity from that disclosed in the most recent historical financial statements, whether reason for the change and the effect of such change on the PFI has been adequately disclosed.</p>
<p>Written representation</p>	<p>He should obtain written representation regarding completeness of significant assumptions and intended use of PFI.</p>
<p>Documentation</p>	<p>He should keep proper documentation to support his report and to have evidence that he has followed this standard. If report is modified, he should document the reasons also.</p>
<p>Report on examination of PFI</p>	<ol style="list-style-type: none"> 1. Title 2. Addressee 3. Identification of PFI 4. Reference to this standard (SAE 3400) 5. Statement that management is responsible for its preparation. 6. When applicable, a reference to the purpose and for restricted distribution of PFI. 7. Statement that examination procedure included examination, on a test basis of evidences supporting the assumptions, amounts and other disclosures in PFI. 8. Statement of negative assurance as to whether assumptions provide a reasonable basis for PFI. 9. Opinion as to whether PFI is properly prepared on the basis of assumptions and presented as per relevant financial reporting framework. 10. Appropriate caveats w.r.t. achievability of results indicated by PFI. 11. Date 12. Place 13. Signature
<p>Considerations</p>	<ul style="list-style-type: none"> ▪ If presentation and disclosures are not adequate - either resign or provide Qualified/Adverse report. ▪ If significant assumptions don't provide reasonable basis - either resign or adverse report ▪ If he can't perform necessary procedures - either resign or disclaimer.

REPORT ON EXAMINATION OF PROSPECTIVE FINANCIAL INFORMATION

To the ... (addressee).....

We have examined the projection of _____ (project) _____ (name of the entity) for the period from _____ to _____ in accordance with Standard on Assurance Engagement 3400, “The Examination of Prospective Financial Information”, issued by the Institute of Chartered Accountants of India.

The preparation and presentation of the projection including the underlying assumptions, set out in note ____ to ____ to the prospective financial information, is the responsibility of the Management and has been approved by the Board of Directors of the company. Our responsibility is to examine the evidence supporting the assumptions (excluding the hypothetical assumption) and other information in the prospective financial information. Our responsibility does not include verification of projections. Therefore, *we do not vouch for the accuracy of the same.*

This projection has been prepared for _____ (intended use). *The projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management’s actions that are not necessarily expected to occur. Consequently, users are cautioned that this projection may not be appropriate for purposes other than that described above.*

We have carried out our examination of the prospective financial information on a test basis. Based on our examination of the evidence supporting the assumptions, **nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis** for the projection, assuming that _____ (state or refer to the hypothetical assumptions).

Further, **in our opinion the projection is properly prepared** on the basis of the assumptions as set out in Note ____ to the Prospective Financial Information and on a consistent basis with the historical financial statements, using appropriate accounting principles. *Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the projection since other anticipated events frequently do not occur as expected and the variation may be material.*

For ABC & Co.,
Chartered Accountants

Signature
(Name of the member signing the report)

Date:

(Designation)

Place of Signature

Membership Number
UDIN

Question – CA Aman Kumar is approached by T & Co. to examine the projected financial statements and give report thereon. Discuss, how he can be associated with prospective financial information without violating relevant provisions of the Chartered Accountants Act, 1949.?

Answer:

- The traditional attest function known as Auditing, has been performed by a CA in practice in relation to historical financial information as it can be verified with the help of evidences available.
- Stakeholders like banks, financial institutions and prospective investors intend to place greater reliance on reports of projected cash flow and profitability statements examined and signed by Chartered accountants having necessary skill and competence.
- Clause 3 of First part of the Second Schedule to the Chartered Accountants Act, 1949 states that that a **chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast.**
- However, the above clause does not preclude a Chartered accountant from associating his name with prospective financial statements.
- CA can participate in the preparation of profit or financial forecasts and can review them, provided he indicates clearly in his report the **sources of information**, the **basis of forecasts** and also the **major assumptions** made in arriving at the forecasts and so long as **he does not vouch for the accuracy of the forecasts.**
- The same also applies to projections made on the basis of hypothetical assumptions about future events and management actions which are not necessarily expected to take place so long as vouching for the accuracy of the projection is not made and appropriate caveats are included in his report as per SAE 3400.

Question - T & Co. wants to issue a prospectus, to provide potential investors with information about future expectations of the Company. You are hired by T & Co. to examine the projected financial statements and give report thereon.

What things you will consider before accepting the audit engagement and what audit evidence will be obtained for reporting on projected financial statements?

[Hint: HEADING AND MATTER GIVEN UNDER “**Acceptance of engagement**” SAE 3400]

Question - KG Ltd. wants to provide prospective Financial Information to its investors with information about future expectations of the company. You are engaged by KG Ltd. to examine the Projected Financial Information and give report thereon. What will you consider in assessing the presentation and disclosure of the prospective Financial Information and the underlying assumptions?

[Hint: HEADING AND MATTER GIVEN UNDER “**Presentation and Disclosure**” SAE 3400]

2. SAE 3402 - ASSURANCE REPORTS ON CONTROLS AT A SERVICE ORGANISATION

Scope of this SAE

1. It complements SA 402, in that reports prepared in accordance with this SAE are capable of providing appropriate evidence under SA 402.
2. This SAE only deals with assertion-based engagements that convey reasonable assurance.
3. This SAE applies only when the service organization is responsible for, or otherwise able to make an assertion about, the suitable design of controls. It does not deal with assurance engagements:
 - (a) To report only on whether controls at a service organization operated as described or
 - (b) To report only on controls at a service organization other than those related to a service that is likely to be relevant to user entities’ internal control as it relates to financial reporting. (for example, controls that affect user entities’ production or quality control).
4. In addition to issuing an assurance report on controls, a service auditor may also be engaged to provide reports such as the following, which are not dealt with in this SAE:
 - (a) A report on a user entity’s transactions or balances maintained by a service organization; or
 - (b) An agreed-upon procedures report on controls at a service organization.

<p>Objectives</p>	<p>The objectives of the service auditor are:</p> <p>(a) To obtain reasonable assurance about whether:</p> <ol style="list-style-type: none"> (i) The service organization’s description of its system fairly presents the system as designed and implemented throughout the specified period (or in the case of a type 1 report, as at a specified date); (ii) The controls related to the control objectives stated in the service organization’s description of its system were suitably designed throughout the specified period (or in the case of a type 1 report, as at a specified date); (iii) Where included in the scope of the engagement, the controls operated effectively. <p>(b) To report on the matters in (a) above in accordance with the service auditor’s findings.</p>
<p>Definitions</p>	<p>For purposes of this SAE, the following terms have the meanings attributed below:</p> <ul style="list-style-type: none"> • <i>Complementary user entity controls</i> – Controls that the service organization assumes, in the design of its service, will be implemented by user entities. • <i>Control objective</i> – The aim or purpose of a particular aspect of controls. Control objectives relate to risks that controls seek to mitigate. • <i>Controls at the service organization</i> – Controls over the achievement of a control objective that is covered by the service auditor’s assurance report. • <i>Criteria</i> – Benchmarks used to evaluate or measure a subject matter including, where relevant, benchmarks for presentation and disclosure. • <i>Report on the description and design of controls at a service organization (referred to in this SAE as a “type 1 report”)</i> – A report that comprises: <ol style="list-style-type: none"> (i) The service organization’s description of its system; (ii) A written assertion by the service organization that: <ol style="list-style-type: none"> a. The description fairly presents the service organization’s system as designed and implemented as at the specified date; b. The controls related to the control objectives stated in the service organization’s description of its system were suitably designed as at the specified date; and (iii) A service auditor’s assurance report that conveys reasonable assurance about the matters in (ii) a.-b. above. • <i>Report on the description, design and operating effectiveness of controls at a service organization (referred to in this SAE as a “type 2 report”)</i> – A report that comprises: <ol style="list-style-type: none"> (i) The service organization’s description of its system; (ii) A written assertion by the service organization that: <ol style="list-style-type: none"> a. The description fairly presents the service organization’s system as designed and implemented throughout the specified period; b. The controls related to the control objectives stated in the service organization’s description of its system were suitably designed throughout the specified period; and c. The controls related to the control objectives stated in the service organization’s description of its system operated effectively throughout the specified period; and (iii) A service auditor’s assurance report that: <ol style="list-style-type: none"> a. Conveys reasonable assurance about the matters in (ii) a.-c. above; and b. Includes a description of the tests of controls and the results thereof. • <i>Service auditor</i> – A professional accountant in public practice who, at the request of the service organization, provides an assurance report on controls at a service organization.

	<ul style="list-style-type: none"> • <i>Service organization</i> – A third-party organization that provides services to user entities that are likely to be relevant to user entities’ internal control as it relates to financial reporting. • <i>Service organization’s system (or the system)</i> – The policies and procedures designed and implemented by the service organization to provide user entities with the services covered by the service auditor’s assurance report. • <i>User auditor</i> – An auditor who audits and reports on the financial statements of a user entity. • <i>User entity</i> – An entity that uses a service organization.
Ethical Requirements	The service auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to assurance engagements.
Management and those charged with Governance	The service auditor shall determine the appropriate person(s) within the service organization’s management or governance structure with whom to interact.
Acceptance and Continuance	<p>Before agreeing to accept, or continue, an engagement the service auditor shall determine whether:</p> <ol style="list-style-type: none"> The service auditor has the capabilities and competence The criteria to be applied by the service organization to prepare the description of its system will be suitable and available to user entities and their auditors; and The scope of the engagement and the service organization’s description of its system will not be so limited that they are unlikely to be useful to user entities and their auditors.
Acceptance of a Change in the Terms of the Engagement	If the service organization requests a change in the scope of the engagement before the completion of the engagement, the service auditor shall be satisfied that there is a reasonable justification for the change.
Assessing the Suitability of the Criteria	The service auditor shall assess whether the service organization has used suitable criteria in preparing the description of its system, in evaluating whether controls are suitably designed, and, in the case of a type 2 reports, in evaluating whether controls are operating effectively.
Determination of Materiality	When planning and performing the engagement, the service auditor shall consider materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of controls.
Obtaining an understanding of the S.O.’s system	The service Auditor shall obtain an understanding of the service organization’s system, including controls that are included in the scope of engagement.
Obtaining Evidence Regarding the Description	The service auditor shall obtain and read the service organization’s description of its system, and shall evaluate whether those aspects of the description included in the scope of the engagement are fairly presented.
Obtaining Evidence Regarding Design of Controls	The service auditor shall determine which of the controls at the service organization are necessary to achieve the control objectives stated in the service organization’s description of its system, and shall assess whether those controls were suitably designed.

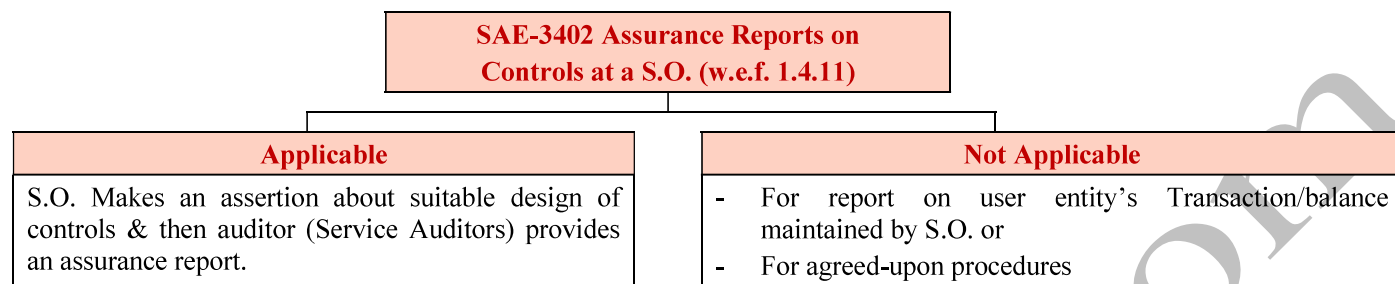
Obtaining Evidence Regarding Operating Effectiveness of Controls	When providing a type 2 report, the service auditor shall test those controls that the service auditor has determined are necessary to achieve the control objectives stated in the service organization's description of its system, and assess their operating effectiveness throughout the period.	
Written Representations	The service auditor shall request the service organization to provide written representations: <ul style="list-style-type: none"> (a) That reaffirm the assertion accompanying the description of the system; (b) That it has provided the service auditor with all relevant information; and (c) That it has disclosed to the service auditor any of the following: <ul style="list-style-type: none"> (i) Non-compliance with laws and regulations, fraud, or uncorrected deviations attributable to the service organization that may affect one or more user entities (ii) Design deficiencies in controls (iii) Instances where controls have not operated as described and (iv) Any events subsequent to the period covered by the service organization's description of its system up to the date of the service auditor's assurance report that could have a significant effect on the service auditor's assurance report. 	
The Work of an Internal Audit Function	<i>Obtaining an Understanding of the Internal Audit Function</i>	If the service organization has an internal audit function, the service auditor shall obtain an understanding of the nature of the responsibilities of the internal audit function.
	<i>Determining Whether and to What Extent to Use the Work of the Internal Auditors</i>	The service auditor shall determine: <ul style="list-style-type: none"> (a) Whether the work of the internal auditors is likely to be adequate for purposes of the engagement; and (b) If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor's procedures.
Subsequent Events	The service auditor shall inquire whether the service organization is aware of any events subsequent to the period covered by the service organization's description of its system up to the date of the service auditor's assurance report that could have a significant effect on the service auditor's assurance report.	

**Content of the
Service Auditor's
Assurance Report**

- (a) A title that clearly indicates the report is an independent service auditor's assurance report.
- (b) An addressee.
- (c) Identification of:
 - (i) The service organization's description of its system, and the service organization's assertion,.
 - (ii) Those parts of the service organization's description of its system, if any, that are not covered by the service auditor's opinion.
 - (iii) If the description refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of design or operating effectiveness of complementary user entity controls,
 - (iv) If services are performed by a subservice organization, the nature of activities performed by the subservice organization as described in the service organization's description of its system and whether the inclusive method or the carve-out method has been used in relation to them.
- (d) Identification of the criteria, and the party specifying the control objectives.
- (e) A statement that the report and, in the case of a type 2 report, the description of tests of controls are intended only for user entities and their auditors
- (f) A statement that the service organization is responsible for:
 - (i) Preparing the description of its system, and the accompanying assertion, including the completeness, accuracy and method of presentation of that description and that assertion;
 - (ii) Providing the services covered by the service organization's description of its system;
 - (iii) Stating the control objectives; and
 - (iv) Designing and implementing controls to achieve the control objectives stated in the service organization's description of its system.
- (g) A statement that the service auditor's responsibility is to express an opinion on the service organization's description, on the design of controls related to the control objectives stated in that description and, in the case of a type 2 report, on the operating effectiveness of those controls, based on the service auditor's procedures.
- (h) A statement that the engagement was performed in accordance with SAE 3402.
- (i) A summary of the service auditor's procedures to obtain reasonable assurance.
- (j) A statement of the limitations of controls and, in the case of a type 2 report, of the risk of projecting to future periods any evaluation of the operating effectiveness of controls.
- (k) The service auditor's opinion, expressed in the positive form, on whether, in all material respects, based on suitable criteria:
 - (i) In the case of a type 2 report:
 - a. The description fairly presents the service organization's system that had been designed and implemented throughout the specified period;
 - b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period; and
 - c. The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.
 - (ii) In the case of a type 1 report:
 - a. The description fairly presents the service organization's system that had been designed and implemented as at the specified date; and
 - b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date.

	(l) The date of the service auditor’s assurance report, which shall be no earlier than the date on which the service auditor has obtained sufficient appropriate evidence on which to base the opinion.				
	<table border="1"> <tr> <td data-bbox="342 289 527 426">Practitioner’s Signature</td> <td data-bbox="527 289 1494 426">The report should be signed by the practitioner in his personal name. Where the firm is appointed, the report should be signed in the personal name of the engagement partner and in the name of the firm. He shall mention the membership number and the registration number of the firm also.</td> </tr> <tr> <td data-bbox="342 426 527 499">The place of signature</td> <td data-bbox="527 426 1494 499">The report should name specific location, which is ordinarily the city where the report is signed.</td> </tr> </table>	Practitioner’s Signature	The report should be signed by the practitioner in his personal name. Where the firm is appointed, the report should be signed in the personal name of the engagement partner and in the name of the firm. He shall mention the membership number and the registration number of the firm also.	The place of signature	The report should name specific location, which is ordinarily the city where the report is signed.
Practitioner’s Signature	The report should be signed by the practitioner in his personal name. Where the firm is appointed, the report should be signed in the personal name of the engagement partner and in the name of the firm. He shall mention the membership number and the registration number of the firm also.				
The place of signature	The report should name specific location, which is ordinarily the city where the report is signed.				
Modified Opinions	<p>If the service auditor concludes that:</p> <ul style="list-style-type: none"> (a) The service organization’s description does not fairly present, in all material respects, the system as designed and implemented; (b) The controls related to the control objectives stated in the description were not suitably designed, in all material respects; (c) In the case of a type 2 report, the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the service organization’s description of its system were achieved, did not operate effectively, in all material respects; or (d) The service auditor is unable to obtain sufficient appropriate evidence, the service auditor’s opinion shall be modified, and the service auditor’s assurance report shall contain a clear description of all the reasons for the modification. 				
Documentation	<p>The service auditor shall prepare documentation that is sufficient to enable an experienced service auditor, having no previous connection with the engagement, to understand:</p> <ul style="list-style-type: none"> (a) The nature, timing, and extent of the procedures performed to comply with this SAE and applicable legal and regulatory requirements (b) The results of the procedures performed, and the evidence obtained and (c) Significant matters arising during the engagement, and the conclusions reached thereon and significant professional judgments made in reaching those conclusions 				

SUMMARY OF SAE- 3402



Report on the

Description and design of controls at S.O. (Type 1 report)

- (i) S.O.'s description of its system
- (ii) A written assertion by S.O. that
 - (a) description fairly present the S.O.'s system designed & implemented *at the specified date*
 - (b) The controls were suitably designed *at the specified date*

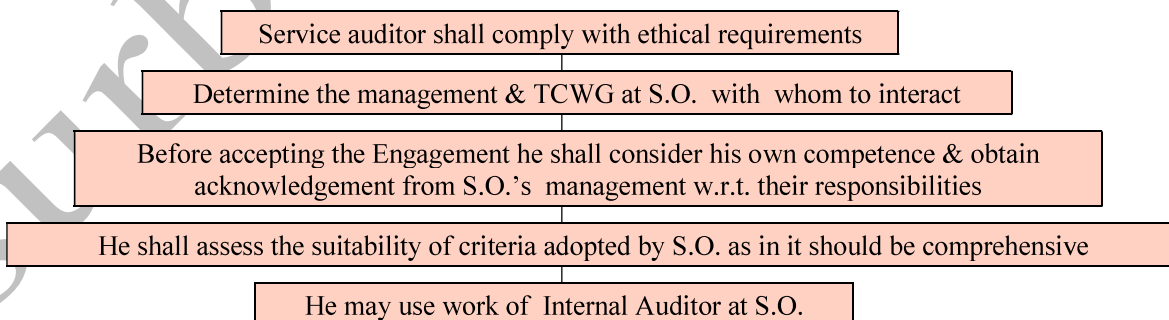
Description design and operate effectiveness of controls at S.O. (Type 2 report)

- (i) S.O.'s description of its system
- (ii) A written assertion by S.O. that
 - (a) description fairly present the S.O.'s system designed & implemented *throughout the specified period*
 - (b) The controls were suitably designed *throughout the specified period*
 - (c) The controls operated effectively throughout the specified period.

(iii) A service auditor's assurance report that conveys reasonable assurance about the (a – b) points as above

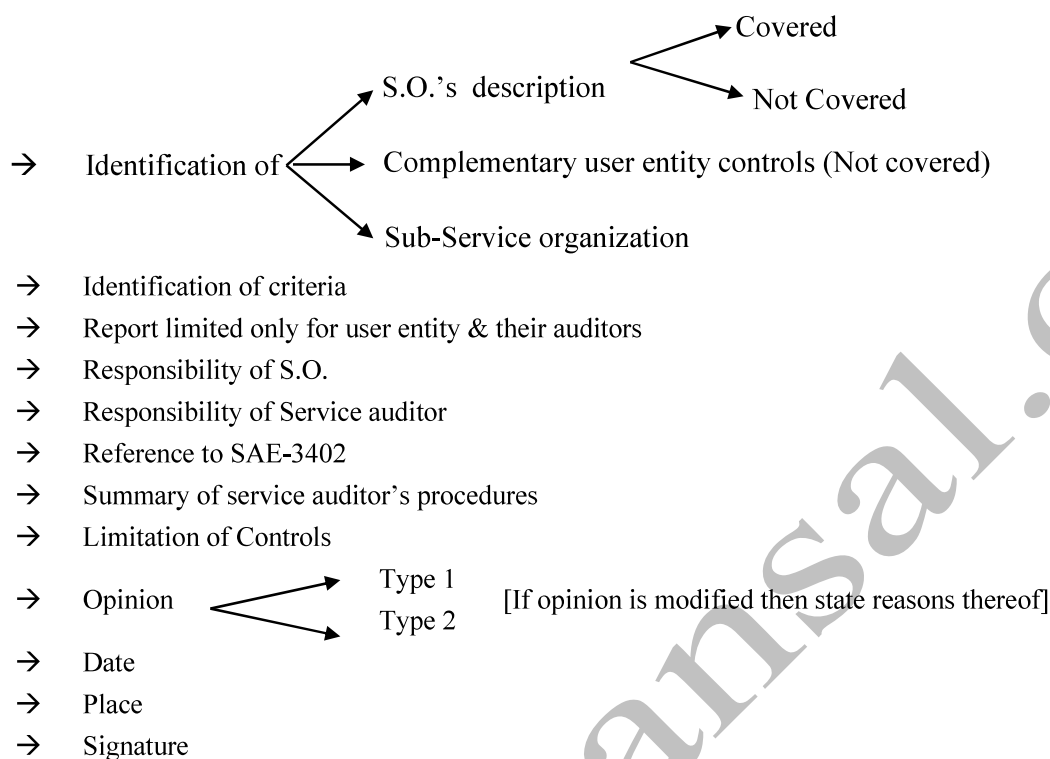
(iii) Service auditor's assurance report that

- | | |
|---|-------------------------------------|
| Coveys reasonable assurance about (a) – (c) | Includes test of controls & results |
|---|-------------------------------------|



Contents of the Service Auditor's Assurance report

- Title
- Addressee



- Criteria:-**
- (a) T – Type of service
 - I – Information (Supporting) & records
 - P – Procedures
 - S – Specified control objectives
 - C – Complementary user entity controls
 - O – Other aspect
 - P – Process to prepare report
 - E – Event

(b) In case of type 2 report changes in the Period.

(c) Acknowledgment that it is to meet the common needs of a broad range of user entity.

Question: How does an auditor report on the description, design and operating effectiveness of controls at a service organization?

[Hint: Refer to TYPE 1 and TYPE 2 Reports]

Question: State the circumstances when a modified report shall be issued by the Service Auditor as per SAE 3402.

3 STANDARD ON ASSURANCE ENGAGEMENT (SAE) 3420 ASSURANCE ENGAGEMENTS TO REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS (WEF 1.4.2016)

Introduction	Scope of this SAE	<ul style="list-style-type: none"> ▪ This Standard on Assurance Engagements (SAE) deals with reasonable assurance engagements undertaken by a practitioner to report on the responsible party's compilation of pro forma financial information included in a prospectus. ▪ The SAE applies where: <ul style="list-style-type: none"> • 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.
	Nature of the Practitioner's Responsibility	<ul style="list-style-type: none"> ▪ In an engagement performed under this SAE, the practitioner has no responsibility to compile the pro forma financial information for the entity; such responsibility rests with the responsible party. ▪ The practitioner's sole responsibility is to report on whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria. It is a reasonable assurance engagement. ▪ This SAE does not deal with non-assurance engagements in which the practitioner is engaged by the entity to compile its historical financial statements.
	Purpose of Pro Forma Financial Information Included in a Prospectus	<ul style="list-style-type: none"> ▪ 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 does not represent the entity's actual financial position, financial performance, or cash flows.
	Compilation of Pro Forma Financial Information	<ul style="list-style-type: none"> ▪ 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 entity as if the event had occurred or the transaction had been undertaken at the selected date. ▪ Steps involved in this process include: <ul style="list-style-type: none"> • 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; • 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	<ul style="list-style-type: none"> ▪ A reasonable assurance engagement to report on the compilation of pro forma financial information involves performing the procedures set out in this SAE to assess whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether: <ol style="list-style-type: none"> (a) The related pro forma adjustments give appropriate effect to those criteria; and

		<p>(b) The resulting pro forma column reflects the proper application of those adjustments to the unadjusted financial information.</p> <ul style="list-style-type: none"> ▪ It also involves evaluating the overall presentation of the pro forma financial information. ▪ The engagement, however, does not involve the practitioner updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, or performing an audit or review of the financial information used in compiling the pro forma financial information.
Objectives	<p>The objectives of the practitioner are:</p> <p>(a) To obtain reasonable assurance about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria; and</p> <p>(b) To report in accordance with the practitioner’s findings.</p>	
Definitions	<p>(a) Applicable criteria – The criteria used by the responsible party when compiling the pro forma financial information. Criteria may be established by an authorized or recognized standard-setting organization or by law or regulation. Where established criteria do not exist, they will be developed by the responsible party.</p> <p>(b) Pro forma adjustments – In relation to unadjusted financial information, these include:</p> <p>(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</p> <p>(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.</p> <p>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”).</p>	
	<p>(c) 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. In this SAE, it is presumed that 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 column.</p> <p>(d) 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.</p> <p>(e) Published financial information – Financial information of the entity or of an acquiree or a divestee that is made available publicly.</p> <p>(f) Unadjusted financial information – Financial information of the entity to which pro forma adjustments are applied by the responsible party.</p>	
Requirements	Framework for Assurance Engagements	The practitioner shall not represent compliance with this SAE unless the practitioner has complied with the requirements of both this SAE and the Framework for Assurance Engagements.
	Engagement Acceptance	Before agreeing to accept an engagement to report on whether pro forma financial information included in a prospectus has been compiled, in all material respects, on the basis of the applicable criteria, the practitioner shall:

	<ul style="list-style-type: none"> (a) Determine that the practitioner has the capabilities and competence to perform the engagement; (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 SAE; (d) Where the sources from which the unadjusted financial information and any acquiree or divestee financial information have been extracted have been audited or reviewed and a modified audit opinion or review conclusion has been expressed, or the report contains an Emphasis of Matter paragraph, consider whether or not the relevant law or regulation permits the use of, or reference in the practitioner's report to, the modified audit opinion or review conclusion or the report containing the Emphasis of Matter paragraph with respect to such sources; (e) If the entity's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the entity and its accounting and financial reporting practices to perform the engagement; (f) If the event or transaction includes an acquisition and the acquiree's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the acquiree and its accounting and financial reporting practices to perform the engagement; and (g) Obtain the agreement of the responsible party that it acknowledges and understands its responsibility for: <ul style="list-style-type: none"> (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; and (iii) Providing the practitioner with: <ul style="list-style-type: none"> a. Access to all information (including, when needed for purposes of the engagement, information of the acquiree(s) in a business combination), such as records, documentation and other material, relevant to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria; 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 evaluating whether the pro forma financial information has been , in all material respects, on the basis of the applicable criteria; and d. When needed for purposes of the engagement, access to appropriate individuals within the acquiree(s) in a business combination.
<p>Planning and Performing the Engagement</p>	<ul style="list-style-type: none"> • The practitioner shall assess whether the applicable criteria are suitable, as required by the Framework for Assurance Engagements • When planning and performing the engagement, the practitioner shall consider materiality with respect to evaluating whether the pro forma financial information has been compiled, in all

	<p>material respects, on the basis of the applicable criteria.</p> <ul style="list-style-type: none"> • An understanding of how the responsible party has compiled the pro forma financial Information and other engagement circumstances • The practitioner shall obtain evidence about the appropriateness of the source from which the unadjusted financial information has been extracted • 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. • The practitioner shall determine whether the responsible party has appropriately extracted the unadjusted financial information from the source. • The practitioner shall obtain evidence about the appropriateness of the pro forma adjustments. <ul style="list-style-type: none"> • The practitioner shall evaluate the presentation of pro forma financial information. • The practitioner shall read the other information included in the Prospectus containing the pro forma financial information to identify material inconsistencies, if any, with pro forma financial information. 				
Written Representations	<ul style="list-style-type: none"> ▪ The practitioner shall request written representations from the responsible party that: <ul style="list-style-type: none"> (a) 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; and (b) The pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. 				
Forming the Opinion	<ul style="list-style-type: none"> ▪ The practitioner shall form an opinion on <i>whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.</i> ▪ In order to form that opinion, the practitioner shall conclude whether the practitioner has obtained sufficient appropriate evidence about whether the compilation of the pro forma financial information is free from material omissions, or inappropriate use or application of a pro forma adjustment. That conclusion shall include an evaluation of whether the responsible party has adequately disclosed and described the applicable criteria to the extent that these are not publicly available. 				
Form of Opinion	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%; padding: 5px;"><i>Unmodified Opinion</i></td> <td style="padding: 5px;"> <ul style="list-style-type: none"> ▪ The practitioner shall express an unmodified opinion when the practitioner concludes that the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria. </td> </tr> <tr> <td style="width: 20%; padding: 5px;"><i>Modified Opinion</i></td> <td style="padding: 5px;"> <ul style="list-style-type: none"> ▪ Where the relevant law or regulation precludes publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner concludes that a modified opinion is nevertheless appropriate in accordance with the Framework for Assurance Engagements, 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: <ul style="list-style-type: none"> (a) Withdraw from the engagement; or (b) Consider seeking legal advice. ▪ Where the relevant law or regulation may not preclude publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner determines that a modified opinion is appropriate in accordance with the Framework for Assurance Engagements, the practitioner shall apply the requirements in the Framework for Assurance Engagements regarding modified opinions. </td> </tr> </table>	<i>Unmodified Opinion</i>	<ul style="list-style-type: none"> ▪ The practitioner shall express an unmodified opinion when the practitioner concludes that the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria. 	<i>Modified Opinion</i>	<ul style="list-style-type: none"> ▪ Where the relevant law or regulation precludes publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner concludes that a modified opinion is nevertheless appropriate in accordance with the Framework for Assurance Engagements, 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: <ul style="list-style-type: none"> (a) Withdraw from the engagement; or (b) Consider seeking legal advice. ▪ Where the relevant law or regulation may not preclude publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner determines that a modified opinion is appropriate in accordance with the Framework for Assurance Engagements, the practitioner shall apply the requirements in the Framework for Assurance Engagements regarding modified opinions.
<i>Unmodified Opinion</i>	<ul style="list-style-type: none"> ▪ The practitioner shall express an unmodified opinion when the practitioner concludes that the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria. 				
<i>Modified Opinion</i>	<ul style="list-style-type: none"> ▪ Where the relevant law or regulation precludes publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner concludes that a modified opinion is nevertheless appropriate in accordance with the Framework for Assurance Engagements, 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: <ul style="list-style-type: none"> (a) Withdraw from the engagement; or (b) Consider seeking legal advice. ▪ Where the relevant law or regulation may not preclude publication of a prospectus that contains a modified opinion with regard to whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria and the practitioner determines that a modified opinion is appropriate in accordance with the Framework for Assurance Engagements, the practitioner shall apply the requirements in the Framework for Assurance Engagements regarding modified opinions. 				

	<p>Emphasis of Matter Paragraph</p>	<ul style="list-style-type: none"> ▪ 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 pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. ▪ 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 whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria. ▪ Such a paragraph shall refer only to information presented or disclosed in the pro forma financial information or the accompanying explanatory notes.
	<p>Preparing the Assurance Report</p>	<p>The practitioner's report shall include the following basic elements:</p> <ol style="list-style-type: none"> (a) A title that clearly indicates that the report is an independent assurance report; (b) An addressee(s), as agreed in the terms of engagement; (c) Introductory paragraphs that identify: <ol style="list-style-type: none"> (i) The pro forma financial information; (ii) The source 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 on the basis of which the responsible party has performed the compilation of the pro forma financial information, 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; (e) A description of the practitioner's responsibilities, including statements that: <ol style="list-style-type: none"> (i) The practitioner's responsibility is to express an opinion about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria; (ii) For purposes of this engagement, the practitioner is not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor has the practitioner, 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) 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. Accordingly, the practitioner does not provide any assurance that the actual outcome of the event or transaction at that date would have been as presented; (f) A statement that the engagement was performed in accordance with SAE 3420, 'Assurance Engagements to Report on the 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 compiled, in all material respects, the pro forma financial information on the basis of the applicable criteria;

- (g) Statements that:
- (i) A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:
 - The related pro forma adjustments give appropriate effect to those criteria; and
 - The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information;
 - (ii) The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the entity, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances; and
 - (iii) The engagement also involves evaluating the overall presentation of the pro forma financial information;
- (h) Unless otherwise required by law or regulation, the practitioner's opinion using one of the following phrases, which are regarded as being equivalent:
- (i) The pro forma financial information has been compiled, in all material respects, 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 place of signature.

Illustrative Practitioner's Report with an Unmodified Opinion

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

[Appropriate Addressee(s)]

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

We have completed our assurance engagement to report on the compilation of pro forma financial information of ABC Company by *[the responsible party]*. The pro forma financial information consists of [the pro forma balance sheet as at [date]], [the pro forma statement of profit and loss 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 on the basis of which *[the responsible party]* has 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 X] on the [company's financial position as at *specify date*] [and] [the company's/its financial performance [and cash flows] for the period 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.

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

[The responsible party] is responsible for compiling the pro forma financial information on the basis of the ***[applicable criteria]***. This responsibility includes the responsibility for designing, implementing and maintaining internal control relevant for compiling the pro forma financial information on the basis of the ***[applicable criteria]*** that is free from material misstatement, whether due to fraud or error. The {Responsible party} is also responsible for identifying and ensuring that the Company complies with the laws and regulations applicable to its activities, including compliance with the provisions of the laws and regulations for the compilation of Pro Forma Financial Information.

Practitioner's Responsibilities

Our responsibility is to express an opinion, as required by[Reference to the relevant law or regulation], about whether the pro forma financial information has been compiled, in all material respects, by ***[the responsible party]*** on the basis of the***[applicable criteria]***.

We conducted our engagement in accordance with Standard on Assurance Engagements (SAE) 3420, ***Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus***, issued by the Institute of Chartered Accountants of India. 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 compiled, in all material respects, the pro forma financial information on the basis of the***[applicable criteria]***.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, 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.

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. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at***[specify date]*** would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by ***[the responsible party]*** in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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

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

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 been compiled, in all material respects, 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. The form and content of this section of the practitioner's report will vary with the nature of such other reporting responsibilities.]

For XYZ and Co.
Chartered Accountants

	Firm Registration number
	Signature (Name of the Member Signing the Report) (Designation) Membership Number
Place of Signature	UDIN
Date	

Question: Before agreeing to accept an engagement to report on whether pro forma financial information included in a prospectus has been compiled, in all material respects, based on the applicable criteria, the practitioner shall Obtain the agreement of the responsible party that it acknowledges and understands its responsibility. Discuss.

Question: ABC Ltd is in the process of listing its shares at NSE in early 2024. During December 2023, it has acquired T Ltd. Its audited financial statements have been issued in May 2023. The management is of the opinion that they need to include the said audit report in the prospectus only, and there is no point getting it adjusted to give effect of the adjustments that would have been done had the acquisition taken place at an earlier date. Can you explain what kind of adjustments and resulting financial statements are called in accordance with relevant Standard in this case? Please state if management's view is correct.

HINT: Explain Pro Forma Financial adjustments and Pro forma Financial statements - SAE 3420

Also, Keep in mind the Actual report of BSR that we discussed in case of Samhi hotels when it acquired ACIC portfolio on 10th august that we did in class in case they have asked you to explain with example.

Note: for this chapter, a thorough understanding of all the actual reports available in public domain, that we have discussed in the class must have helped you in conceptual clarity of practical situations where they have been issued. Also, remember to mark key words as we did in the class alongside MCQ file that you have. It is a new chapter added in new scheme, question/case study/MCQ is likely to be asked in the exams.