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***Standards for
Investment
Reporting*** **2000** *(Revised)*

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INVESTMENT REPORTING STANDARDS
APPLICABLE TO PUBLIC REPORTING ENGAGEMENTS
ON HISTORICAL FINANCIAL INFORMATION

The Auditing Practices
Board

THE AUDITING PRACTICES BOARD

The Auditing Practices Board (APB), which is part of the Financial Reporting Council (FRC), prepares for use within the United Kingdom and the Republic of Ireland:

- Standards and guidance for auditing;
- Standards and guidance for reviews of interim financial information performed by the auditor of the entity;
- Standards and guidance for the work of reporting accountants in connection with investment circulars; and
- Standards and guidance for auditor's and reporting accountant's integrity, objectivity and independence

with the objective of enhancing public confidence in the audit process and the quality and relevance of audit services in the public interest.

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STANDARDS FOR INVESTMENT REPORTING

2000 – INVESTMENT REPORTING STANDARDS APPLICABLE TO PUBLIC REPORTING ENGAGEMENTS ON HISTORICAL FINANCIAL INFORMATION (REVISED)

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ANNEXURE

Accounting conventions commonly used in the preparation of historical financial information in investment circulars¹

1 The Annexure has been compiled by the APB from a number of sources. It does not include basic principles, essential procedures or guidance promulgated by the APB.

STANDARDS FOR INVESTMENT REPORTING

2000 – INVESTMENT REPORTING STANDARDS APPLICABLE TO PUBLIC REPORTING ENGAGEMENTS ON HISTORICAL FINANCIAL INFORMATION

SIR 1000 “Investment reporting standards applicable to all engagements in connection with an investment circular” contains basic principles and essential procedures (“Investment Reporting Standards”) that are applicable to all engagements involving an investment circular. The definitions in the glossary of terms set out in Appendix 4 of SIR 1000 are to be applied in the interpretation of this and all other SIRs. Terms defined in the glossary are underlined the first time that they occur in the text.

SIR 2000 contains additional Investment Reporting Standards, indicated by paragraphs in bold type, with which a reporting accountant is required to comply in the conduct of an engagement involving the examination of historical financial information which is intended to give a true and fair view, for the purposes of the relevant investment circular, included within an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom or the Republic of Ireland.

SIR 2000 also includes explanatory and other material, including appendices, in the context of which the Investment Reporting Standards are to be understood and applied. It is necessary to consider the whole text of the SIR to understand and apply the basic principles and essential procedures.

To assist readers, SIRs contain references to, and extracts from, certain legislation and chapters of the Rules of the UK Listing Authority (UKLA) and the Listing Rules of the Irish Stock Exchange Limited (ISE) (together “the Listing Rules”). Readers are cautioned that these references may change subsequent to publication.

This version of SIR 2000 replaces the version issued in July 2005.

Introduction

1. The purpose of this Standard for Investment Reporting (SIR) is to establish standards and provide guidance on the reporting accountant’s responsibilities and procedures when preparing an “accountant’s report” on historical financial information. The work required to prepare an “accountant’s report” is referred to in this SIR as the “reporting accountant’s exercise”. The objective of the reporting accountant’s exercise is to enable the reporting accountant to express an opinion as to whether, for the purposes of the relevant investment circular, the financial information gives a true and fair view of the state of affairs and profits, cash flows and statements of changes in equity of the issuer, or where applicable the target.

2. **When the reporting accountant is engaged to prepare an accountant's report, the reporting accountant should obtain sufficient appropriate evidence to express an opinion as to whether the financial information presents a true and fair view, for the purposes of the investment circular. (SIR 2000.1)**
3. An engagement to prepare an accountant's report is a public reporting engagement as described in SIR 1000. The description of a public reporting engagement includes three generic terms having the following meanings in the context of an engagement to report on historical financial information:
 - (a) With respect to historical financial information the "**subject matter**" is the entity's financial position for the periods being reported on;
 - (b) The "**suitable criteria**" are the requirements of the applicable financial reporting framework, the PD Regulation, and Listing Rules together with any "accepted conventions", as set out in the Annexure, that are applicable; and
 - (c) With respect to historical financial information the "**outcome**" is the directors' historical financial information that is included in the investment circular and which has resulted from the directors applying the suitable criteria to the subject matter. The reporting accountant expresses an opinion (in the "**accountant's report**") as to whether the historical financial information gives, for the purposes of the investment circular, a true and fair view.
4. The Prospectus Rules set out certain requirements, derived from the PD Regulation, relating to the presentation of historical financial information in a prospectus. Annex I of the PD Regulation (and there are equivalent requirements in a number of the other annexes) requires that historical financial information is either audited or "reported on as to whether or not, for the purposes of the registration document, it gives a true and fair view, in accordance with auditing standards applicable in a Member State or an equivalent standard."².
5. With respect to Class 1 acquisitions, Chapter 13 of the Listing Rules sets out requirements for a financial information table relating to a target company and the accountant's opinion on that table. The accountant's opinion is required to state whether, for the purposes of the Class 1 circular, the financial information table gives a true and fair view of the financial matters set out in it, and whether the financial information table has been prepared in a form that is consistent with the accounting policies adopted in the listed company's latest annual accounts.

2 In respect of prospectus content requirements, the Prospectus Rules reproduce the Annexes to the PD Regulation. Accordingly, references to the contents requirements in the Annexes to the Prospectus Rules are also references to the Annexes to the PD Regulation.

6. In this SIR, accountant's opinions on such financial information tables are described as "accountant's reports".
7. An accountant's report is likely to be used where the issuer's audited annual financial statements do not meet the standards of preparation and presentation prescribed in the applicable rules and need, therefore, to be adjusted in order that historical financial information which complies with the applicable rules can be presented. For example, where the entity is seeking a listing, the financial information for the last two years is required to be prepared and presented in a form consistent with that which will be adopted in the issuer's next published annual financial statements, having regard to accounting standards and policies and legislation applicable to such annual financial statements. In the context of Class 1 circulars, the objective may be to present the financial information of the target for all periods in a form which is consistent and comparable with the accounting policies adopted by the listed company in its latest annual accounts.
8. In addition, an accountant's report is used where the issuer has a complex financial history and there are no underlying financial statements that have been audited. Conventions for accounting where there are complex financial histories are described in the Annexure to this SIR.
9. The nature of the accountant's report is such that the objective of the reporting accountant's exercise does not differ in essence from that of an auditor. The underlying requirement of this SIR is that the reporting accountant will, in conducting the work necessary to provide the accountant's report, perform its own procedures, and/or use the work of the auditor(s), that meet those requirements of ISAs (UK and Ireland) that are relevant to the reporting accountant's exercise. The reporting accountant applies ISAs (UK and Ireland) on the basis set out in this SIR in the context of the following:
 - (a) The reporting accountant is often reporting on financial information that has been included in, or formed part of, financial statements which have themselves already been subject to audit by an independent auditor. In consequence, there may be available to the reporting accountant a body of independent evidence relating to the historical financial information which would not be available to an auditor examining the financial information for the first time;
 - (b) The financial information being examined may relate to accounting periods in circumstances where financial statements for one, and possibly two, subsequent periods have been prepared and audited. These circumstances mean that in assessing risks that may affect the historical financial information in relation to earlier periods the reporting accountant has the benefit of information relating to uncertainties affecting the financial information which would not have been available to an auditor auditing the information for the first time; and

- (c) The reporting accountant does not have the statutory reporting responsibilities of an auditor.
10. This SIR provides standards that address those aspects of the reporting accountant's exercise that require the reporting accountant to perform procedures directly, for example risk assessment procedures. It also provides guidance on the application of ISAs (UK and Ireland) to the reporting accountant's exercise.
 11. This SIR recognises that the reporting accountant may wish to use evidence previously obtained by the auditor who audited the historical financial statements for the relevant period covered by the reporting accountant's exercise. Guidance is provided on the steps that the reporting accountant undertakes, including initial planning considerations, in order to assess the suitability of the audit evidence for this purpose.
 12. Subject to the considerations set out in this SIR, references in the ISAs (UK and Ireland) to the auditor performing audit procedures or obtaining audit evidence may be read as references to the reporting accountant being satisfied that the procedures have been performed, or the evidence has been obtained, either by the reporting accountant or an auditor.
 13. Certain requirements of ISAs (UK and Ireland) will not be relevant to the reporting accountant's exercise, for example, when a requirement of an ISA (UK and Ireland) is predicated on a continuing relationship between an auditor and the entity being audited, or because of the specific nature of the reporting accountant's responsibilities, under applicable regulations, as discussed in this SIR.
 14. This SIR also provides guidance to the reporting accountant in the context of assessing whether the financial information shows a true and fair view, for the purposes of the investment circular. In situations where the issuer has a historical record of audited financial statements, the true and fair view for the purposes of the investment circular may be a financial reporting framework such as International Financial Reporting Standards as adopted by the European Union. In situations where the issuer has a complex financial history the conventions to support the true and fair view for the purposes of the investment circular are set out in the Annexure to this SIR.

Pre-existing financial information

15. With respect to historical financial information, where the issuer already has available:
 - (a) Audited annual financial statements; or
 - (b) Audited or reviewed interim financial information,

which meet the requirements of the applicable rules in respect of the preparation and presentation of historical financial information to be included in the investment circular, it

may choose to include these financial statements, or financial information, in the investment circular together with the pre-existing reports of the auditor. In these circumstances an accountant's report is not prepared and this SIR does not apply to such circumstances. Furthermore, in these circumstances the audit firm is not required by the Prospectus Rules to consent to the inclusion of its reports in the investment circular.

16. Notwithstanding that the audit firm is not required to give consent, a reporting accountant that is also the auditor of the company may become aware that the financial statements are defective. For example, a material error may have been detected in the original financial statements. If the reporting accountant does become aware that the financial statements are defective and that the directors have not revised them as permitted by section 454 of the Companies Act 2006, it discusses the matter with those charged with governance. If the directors do not decide to revise the financial statements the reporting accountant considers the need to take legal advice³.

True and fair view, for the purposes of the investment circular

17. **The reporting accountant should:**

- (a) Obtain an understanding of the purpose of the investment circular;**
- (b) Ascertain which financial reporting framework is required to be used by the applicable regulations and which, if any, accepted conventions as to the preparation and presentation of historical financial information for inclusion in investment circulars are to be applied⁴; and**
- (c) Review the appropriateness of the accounting policies**

in order to determine whether the proposed historical financial information prepared by the issuer is capable of giving a true and fair view, for the purposes of the investment circular. (SIR 2000.2)

18. Where historical financial information is presented in a prospectus the Prospectus Rules generally determine the applicable financial reporting framework. The Prospectus Rules require the most recent year's financial information to be presented in a form consistent with that which will be adopted in the issuer's next published annual financial statements, having regard to the accounting standards, policies and legislation applicable to such annual financial statements.

3 See also Bulletin 2008/5 "Auditor's Reports on Revised Accounts and Reports, in the United Kingdom".

4 See Annexure.

19. The reporting accountant satisfies itself that the directors have performed a thorough review of the accounting policies used in preparing the historical financial information in determining the accounting policies appropriate for the business following the transaction that is the subject of the prospectus. The reporting accountant also considers whether the policies are consistent with the applicable financial reporting framework, and accounting policies used in the relevant industry. Where the reporting accountant does not agree with the directors' final proposed accounting policies they refer to the guidance on reporting set out in paragraphs 70 to 76 of this SIR.
20. Where information is presented in a Class 1 circular, the suitable criteria regarding its presentation are those set out in the Listing Rules. These rules require financial information to be presented in a form consistent with the accounting policies adopted in the issuer's latest annual consolidated accounts.
21. The directors have regard to, and make appropriate disclosure of, accepted conventions which have been developed for the preparation and presentation of historical financial information in investment circulars (including those relating to additional disclosures). These conventions have been developed to assist the directors, to the extent consistent with established accounting principles, to fulfil the criteria set out in the relevant regulations, present the information in an easily analysable form, and give a true and fair view for the purposes of the applicable investment circular.
22. The Annexure provides a summary of these conventions including, among others, conventions that address:
 - Making adjustments to previously published financial statements and dealing with entities which have not previously prepared consolidated accounts.
 - Carve outs.
 - Acquisitions.
 - Newly-formed issuers.

In certain circumstances applying the conventions may result in combined or aggregated, rather than consolidated, financial information being presented in order to meet the requirement to present financial information that gives a true and fair view, for the purposes of the investment circular.

General professional considerations

23. SIR 1000.3 and SIR 1000.4 set out basic principles and essential procedures applicable to agreeing the terms of the engagement. Paragraphs 11 to 15 and paragraph 17 of SIR 1000 provide guidance with respect to these basic principles and essential procedures. Illustrative examples of engagement letter clauses are set out in Appendix 1. SIR 1000.5

sets out the basic principles and essential procedures with respect to the ethical requirements that apply to a reporting accountant.

24. Where the evidence used by the reporting accountant includes that contained within the audit documentation of an auditor, the reporting accountant's documentation identifies the working papers reviewed and the nature of the work performed. Whilst it is not necessary for the reporting accountant's documentation to replicate all of the detailed findings contained in the audit documentation reporting accountants do document the basis on which the auditor addressed the particular risks identified in the reporting accountant's risk assessment procedures.
25. In considering the requirements of ISA (UK and Ireland) 240 "The auditor's responsibilities relating to fraud in an audit of financial statements", ISA (UK and Ireland) 250 "Section A - Consideration of laws and regulations in an audit of financial statements and Section B - The auditor's right and duty to report to regulators in the financial sector" for the auditor to report any matters arising to certain authorities, the reporting accountant will need to assess the effect of these requirements when reporting in terms of the true and fair view, for the purposes of the investment circular. Where matters arise which may potentially require disclosure by the reporting accountant and the reporting accountant is unsure how to proceed, the reporting accountant takes legal advice.
26. In applying ISAs (UK and Ireland) 240, 250, 260 "Communication with those charged with governance", 265 "Communicating deficiencies in internal control to those charged with governance and management" and 450 "Evaluation of misstatements identified during the audit", the reporting accountant considers who, in relation to the investment circular, should be regarded as a person charged with governance. Where the issuer has already formed an audit committee, the reporting accountant communicates with the audit committee in accordance with the guidance set out in this SIR. In the absence of an audit committee those responsible for governance will usually be the directors of the issuer.

Planning

27. **The reporting accountant should perform and document risk assessment procedures to support the reporting accountant's exercise. (SIR 2000.3)**
28. In addition to those matters that a reporting accountant considers when applying SIR 1000, a reporting accountant may consider:
 - Any previous modifications to the opinion in the auditor's report on underlying financial statements or emphasis of matter or other matters paragraphs and their potential impact on the approach to the reporting accountant's exercise.
 - The nature of adjustments to previously published historical financial information which may be proposed by the preparer of the historical financial information (for

example as a result of changing the applicable accounting framework) and the sources of evidence to support an examination of the adjustments.

- The interaction with other roles undertaken by the reporting accountant in connection with the transaction, for example preparing a long form report.
 - Staffing, including relevant experience and skills linked to investment circular reporting, and sources of consultation.
 - Liaison with the auditor and arrangements for terms of access to the audit documentation, or equivalent evidence if maintained in machine readable form.
 - The nature and timing of procedures to support any decision to rely on audit evidence obtained by the auditor.
 - Whether the financial reporting framework applicable to the audited financial statements is the same as that applicable to the financial information contained in the investment circular.
 - Whether there are any special circumstances concerning the appointment, resignation or reporting responsibilities of the auditor.
 - Whether there is evidence of any limitation having been placed on the work of the auditor.
 - Whether corrections or adjustments to subsequent financial statements indicate possible inadequacies in the audits of earlier periods.
29. **Where the reporting accountant is considering using audit evidence obtained by an auditor as part of the evidence for the reporting accountant's exercise, the reporting accountant should consider the professional qualification, independence and professional competence of the auditor and the quality control systems applied by the audit firm to that engagement. (SIR 2000.4)**
30. Matters that the reporting accountant considers include:
- The integrity and experience of the auditor.
 - Whether the auditor was required to comply with the APB's Ethical Standards for Auditors, International Standard on Quality Control (UK and Ireland) 1, ISAs (UK and Ireland) or equivalent standards.

Understanding of the entity, its environment and risk assessment

31. **The reporting accountant should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the historical financial information covered by the accountant's report whether due to fraud or error, and sufficient to design and perform further procedures. As part of this risk assessment the reporting**

accountant should determine whether any of the risks identified are, in the reporting accountant's judgment, significant risks. (SIR 2000.5)

32. Such an understanding is ordinarily obtained by:
 - (a) Meeting the directors and management of the entity;
 - (b) Visiting the entity's premises;
 - (c) Discussing the financial information and recent results with management;
 - (d) Applying analytical procedures to the financial information; and
 - (e) Obtaining from management an understanding of the principal transaction flows, internal controls and reporting arrangements of the business.
33. If this process indicates that there are factors which may give rise to a modification of the accountant's opinion or an emphasis of matter and other matter paragraphs then such factors are reported immediately to those responsible for the investment circular, usually the directors, and any other responsible parties.
34. In considering areas of risk in relation to the periods for which historical financial information is presented, the reporting accountant has regard to the probability that misstatements in earlier periods, if they exist, are likely to have been detected in subsequent periods. Account is also taken of the fact that other uncertainties, particularly those affecting subjective matters in the historical financial information, may have been resolved with the passage of time.
35. **When performing the risk assessment, the reporting accountant should take into account the evidence obtained from all other relevant work performed in connection with the investment circular. (SIR 2000.6)**
36. The reporting accountant may be undertaking other relevant work related to the transaction giving rise to the accountant's report. For example, the reporting accountant may have been commissioned to prepare a long form report, or a comfort letter on a statement of sufficiency of working capital.
37. If other relevant work has been performed by another firm the reporting accountant requests the issuer to provide access to the documentation of such work. If the reporting accountant is not allowed access to such documentation it considers the implications for its report.

Materiality

38. The reporting accountant determines both materiality and performance materiality for the purposes of the reporting accountant's work independently from the auditor, if any, who audited the underlying financial statements, and accordingly the reporting accountant's

determination of materiality and performance materiality may differ from that of the auditor. In determining materiality and performance materiality for the purposes of reporting on historical financial information, regard is had to the context in which the opinion is to be given (which includes the fact that the information may relate to a trend of results over a three year period).

The reporting accountant's procedures

39. **The reporting accountant should perform procedures to obtain sufficient appropriate evidence as to whether the work of an auditor, which the reporting accountant plans to use, is adequate for the reporting accountant's purposes. Where the reporting accountant, concludes that the auditor's work is not adequate, does not have access to the auditor's audit documentation, or an audit has not previously been performed, the reporting accountant should perform procedures that compensate for this. The procedures of the auditor and the reporting accountant, taken together, should comply with the requirements of ISAs (UK and Ireland) unless:**
- (a) An entire ISA (UK and Ireland) is not relevant to the reporting accountant's engagement; or**
 - (b) A particular requirement is:**
 - (i) Conditional and the condition does not exist; or**
 - (ii) Less relevant than an equivalent requirement of a SIR; or**
 - (iii) Predicated on the concept of a recurring engagement or an ongoing relationship with a client which is usually not relevant to engagements to report on an investment circular; or**
 - (c) It is not practicable for the reporting accountant to undertake such procedures.**

If the reporting accountant decides not to comply with a requirement of ISAs (UK and Ireland) because it is not practicable for it to undertake such procedures, it should document the reason for not complying with the requirement and why its omission does not have an impact on its opinion. (SIR 2000.7)

40. In approaching the procedures to be performed in response to the assessed risk of material misstatement at the assertion level, the reporting accountant considers the extent to which the procedures that the reporting accountant wishes to perform have previously been performed by an auditor. Where such procedures have been performed by an auditor, the reporting accountant may, subject to the considerations discussed in this SIR, use the evidence obtained by the auditor from those procedures as part of the reporting accountant's own evidence.

41. In exceptional circumstances a reporting accountant may judge it necessary to depart from a relevant requirement in an ISA (UK and Ireland) to achieve the aim of that requirement. In such circumstances the reporting accountant performs alternative procedures to achieve the aim of that requirement. When such a situation arises the reporting accountant documents the reason for the departure.
42. Where applicable auditing standards have changed during the period covered by the historical financial information, or it is not practicable for the reporting accountant to undertake procedures that meet the requirements of ISAs (UK and Ireland), the reporting accountant considers the implications for the reporting accountant's exercise, having regard to its risk assessment. The reporting accountant may be able to conclude that it is unnecessary to apply certain requirements of the ISAs (UK and Ireland) throughout the three year period covered by the accountant's report because:
- (a) It is sufficient to apply them with respect to the latest period only, because sufficient appropriate evidence relating to earlier periods can be obtained from the latest period; or
 - (b) The auditing standards that were applicable at the time met the same objectives as the requirements of ISAs (UK and Ireland).

In such cases the reporting accountant documents the reason or justification for not meeting the requirement and why omitting it does not have an impact on its opinion.

43. **When the reporting accountant intends to use audit evidence obtained by the auditor, it should evaluate whether the audit procedures performed by the auditor adequately respond to the reporting accountant's assessment of the risks (including significant risks) of material misstatement of the financial information to be included in the investment circular. (SIR 2000.8)**
44. **The reporting accountant's procedures should include:**
- (a) **Examining material adjustments from previously published historical financial statements made during the course of preparing the historical financial information and considering the responsible party's basis for satisfying itself that the adjustments are necessary and whether they have been correctly determined;**
 - (b) **Evaluating whether all necessary adjustments to previously published historical financial statements have been made; and**
 - (c) **Where the information is based on previously published financial statements, comparing the historical financial information to those financial statements and assessing whether the information has been accurately extracted therefrom. (SIR 2000.9)**

45. In certain areas, use of the work of the auditor may be the only practicable means of obtaining the evidence necessary to support the reporting accountant's opinion⁵. The timing of the reporting accountant's own work will inevitably be dictated by the timing of the preparation of the historical financial information and the related investment circular and this may be some time after the end of the periods to which the report relates.

Evidence

46. The reporting accountant reconsiders the matters considered at the planning stage as described in paragraphs 28 and 30.
47. Where the financial information to be reported on has previously been subject to audit, the audit documentation will be a useful source for the evidence which the reporting accountant may need to support its opinion on the financial information.
48. If planning to use the work of the auditor, the reporting accountant considers whether:
- (a) The work of the auditor was conducted to an appropriate materiality level; and
 - (b) The auditor appears to have complied with the auditing standards that were applicable to the auditor's work.
49. The reporting accountant accepts evidence in audit documentation as being prima facie truthful and genuine, but in considering that evidence adopts an attitude of professional scepticism, whether the documentation was produced by an auditor from the reporting accountant's own firm or by another auditor. However, with respect to audit documentation from the reporting accountant's own firm, the reporting accountant is more familiar with the detailed quality control procedures that will have been applied in the conduct of the audit. The application of professional scepticism will include considering the evidence contained in the audit documentation in the light of the understanding of the entity and its environment, including its internal control and such other evidence as the reporting accountant obtains directly.
50. The extent to which independent testing of the evidence obtained by the auditor (for example, reperformance of tests performed by the auditor) will be necessary is a matter for the reporting accountant's judgment on the basis of the information available at the time, including the reporting accountant's evaluation of the auditor's work.
51. **The reporting accountant should evaluate the quality of the audit evidence obtained by the auditor that the reporting accountant intends to rely on. Where the reporting accountant concludes that such audit evidence is either not sufficient or is**

5 Procedures which require the reporting accountant to be physically present at a relevant date (for example attendance at physical inventory counting) will clearly be impossible to perform.

inappropriate for the purposes of the reporting accountant's exercise the reporting accountant should obtain evidence directly. Where the evidence is not available, the reporting accountant should consider the implications for its report. (SIR 2000.10)

52. Where the reporting accountant intends to rely on internal controls the reporting accountant performs tests of control when unable to rely on the auditor's tests of such internal controls. This is likely to arise when the auditor:
- (a) Has not performed tests of those internal controls; or
 - (b) Has performed tests of internal controls but the internal controls have subsequently changed.
53. Where relevant information is not available from the audit documentation, the reporting accountant will need to obtain the relevant evidence directly. The audit documentation is unlikely, for example, to contain information concerning post balance sheet events up to the date of signing the accountant's report or to contain evidence relating to any adjustments made to the financial statements in preparing the historical financial information.

Obtaining access to information in audit documentation

54. When the company's auditor, or former auditor, is not appointed as the reporting accountant, the auditor will be aware that the reporting accountant may need access to information contained in the audit documentation. The auditor or former auditor is normally prepared, in accordance with relevant professional guidance, to make the audit documentation available to reporting accountants for the purpose of work under this SIR.
55. Access may be granted only on the basis that the auditor accepts no responsibility or liability to the reporting accountant in connection with the use of the audit documentation by the reporting accountant. This has no effect on the reporting accountant's judgment regarding the extent to which reliance is placed on such audit documentation.
56. In cases where the reporting accountant is not able to obtain access to information in audit documentation, the reporting accountant will have no option other than to obtain the relevant evidence directly.
57. Irrespective of whether the reporting accountant has access to the auditor's documentation, the reporting accountant seeks to obtain, either from the directors or from the auditor, copies of all relevant communications sent by the auditor to those charged with governance of the entity, including those required to be sent by auditing standards applicable at the time, and copies of any responses to such communications made by management. A relevant communication would, for example, be one that discussed internal control and other weaknesses.

Events occurring up to the date of the accountant's report

58. Unless a post balance sheet event indicates that there has been an error in the preparation of the historical financial information in an earlier period, the reporting accountant will, having regard to the convention for treating post balance sheet events for the purposes of historical financial information in an investment circular (as referred to in the Annexure), only consider the impact of post balance sheet events occurring up to the date of the accountant's report on the final period presented.

Events occurring between the date of the accountant's report and the completion date of the transaction

59. **If, in the period between the date of the accountant's report and the completion date of the transaction, the reporting accountant becomes aware of events and other matters which, had they occurred and been known at the date of the report, might have caused it to issue a different report or to withhold consent, the reporting accountant should discuss the implications of them with those responsible for the investment circular and take additional action as appropriate. (SIR 2000.11)**
60. After the date of the accountant's report, the reporting accountant has no obligation to perform procedures or make enquiries regarding the investment circular.
61. Under Chapter 3 of the Prospectus Rules, a supplementary prospectus must be prepared if, after the date the prospectus has been formally approved by the FSA and before the final closing of the offer of securities to the public or the commencement of trading in the relevant securities, there is a significant change affecting any matter contained in the document or a significant new matter has arisen (or a material mistake or inaccuracy is noted).
62. If, as a result of discussions with those responsible for the investment circular concerning a subsequent event that occurred prior to the completion date of the transaction, the reporting accountant is either uncertain about or disagrees with the course of action proposed, the reporting accountant may consider it necessary to take legal advice with respect to an appropriate course of action.

Going concern

63. References to an emphasis of matter of a material uncertainty related to events or conditions that may cast significant doubt about the ability of the entity to continue as a going concern that is relevant at the time the accountant's report is signed, and which will not be resolved by a satisfactory outcome to the transaction to which the investment circular relates, will be included in the reporting accountants' report immediately after the reporting accountant's opinion on the financial information.
64. Where the material uncertainty, related to events or conditions that may cast significant doubt about the ability of the entity to continue as a going concern, will be resolved if the outcome of transactions to which the investment circular containing the report relates is

satisfactory (for example the successful raising of money through a share issue or shareholder approval of a transaction), the reporting accountant will consider whether adequate disclosure of that matter or uncertainty is made in a basis of preparation note to the historical financial information. If adequate disclosure is made in the historical financial information it is unlikely to be necessary for the reporting accountant to include an emphasis of matter paragraph in its report.

Representations

65. SIR 1000.13 sets out the basic principles and essential procedures with respect to obtaining written confirmation of representations from the directors of the entity.
66. A number of specific representations are required by ISAs (UK and Ireland). Where representations have been obtained by the auditor, subject to the considerations set out in this SIR, it may not be necessary for the reporting accountant to seek further representations covering the same matters, other than in relation to the period since the audit opinion relating to the final period included in the historical financial information was given.
67. Representations additional to those pursuant to ISAs (UK and Ireland) that a reporting accountant may consider for incorporation in the letter of representation or board minute include:
- Confirmation from the directors or management of the entity that they are responsible for the preparation of the historical financial information.
 - Confirmation that any adjustments made to historical financial statements for the purposes of preparing the historical financial information are necessary, have been correctly determined and that there are no other adjustments that are necessary.
68. In relation to a Class 1 acquisition, the acquirer may not be in a position to make representations in relation to the historical financial information of the target entity on matters such as fraud, non-compliance with laws and regulation and related parties. In such circumstances representations may be sought from the management of the target entity.

Joint reporting accountants

69. When joint reporting accountants are appointed, the division of work as between them is a matter for agreement. The arrangements between the joint reporting accountants may form part of the engagement letter. Irrespective of any such arrangement, the joint reporting accountants are jointly and severally responsible for the report to be given. Each of the joint reporting accountants participates in the planning of the engagement and they agree upon the scope of work and any changes subsequently found to be necessary thereto. Each of the joint reporting accountants has regard to the considerations set out in this SIR in respect of using the work of an auditor in determining

the extent to which it is appropriate to rely on the evidence obtained by the other reporting accountants or the extent to which they consider it necessary to carry out their own work. Each of the joint reporting accountants reviews the work of the other to the extent considered necessary and records the results of that review. A common record of documentation, in accordance with paragraphs 46-48 of SIR 1000, is normally maintained.

Reporting

70. SIRs 1000.17, 1000.18, 1000.19 and 1000.20 set out the basic principles and essential procedures with respect to reporting. Appendices 2 and 3 set out illustrative examples of accountant's reports on historical financial information.
71. The reporting accountant's opinion is usually expressed in terms of whether, for the purpose of the relevant investment circular, the financial information gives a true and fair view of the state of affairs and profits, cash flows and statement of changes in equity.
72. When there is a limitation on the scope of the reporting accountant's work, the reporting accountant considers whether the limitation results in a lack of sufficient appropriate evidence necessary to form an opinion. When the possible effect is, in the opinion of the reporting accountant, material to the financial information, there will be insufficient evidence to support an unqualified opinion. The nature of the work of reporting accountants is such that in the absence of reliable contemporary evidence relating to significant accounts and balances it may not be possible to form an opinion on the financial information. This might be the case where there has been no audit of the underlying financial information in the past or where the auditor has given a qualified opinion because of a limitation in the scope of work.
73. As a consequence of the purpose for which financial information is presented and the importance which may be attached to it by readers of the document, a reporting accountant does not normally agree to be associated with financial information where a disclaimer of opinion needs to be given on the information for the entire period.
74. The reporting accountant needs to be satisfied that the financial information adequately describes both the applicable financial reporting framework used in the preparation of the financial information and any of the accounting conventions from the Annexure that have been used. Usually these are referred to within the financial information in a basis of preparation note.
75. Where the financial information has been prepared fully in accordance with a recognised financial reporting framework such as "International Financial Reporting Standards as adopted by the European Union" the accountant's opinion is expressed in terms of the financial information giving a true and fair view in accordance with that framework (see Appendix 2 for an illustration).

76. Where the financial information has not been prepared fully in accordance with a recognised financial reporting framework but, for example, in accordance with a financial reporting framework modified by applying a convention described in the Annexure to this SIR, the accountant's opinion is expressed in terms of the financial information being prepared in accordance with the basis of preparation described in note x to the financial information, rather than in accordance with the financial reporting framework. The basis of preparation note states which accounting convention has been applied and how it departs from the requirements of the recognised financial reporting framework. A statement is made in the note that in all other respects the recognised financial reporting framework has been applied (see Appendix 3 for an illustration of the accountant's report).

Other information – references to previous audit opinions

77. The reporting accountant's opinion is arrived at independently of any audit opinion previously given on the financial statements which form the basis for the financial information to be reported on. It is not part of the reporting accountant's role to explain (where this is the case) why the reporting accountant's opinion differs from the opinion of the auditor. In some cases, however, there may be an obligation on an issuer to disclose details of modified opinions contained in auditor's reports prepared by the statutory auditor. In such cases, the reporting accountant considers the disclosures made by the issuer relating to such modified opinions and whether any matters disclosed might give rise to questions as to how the reporting accountant has dealt with matters giving rise to the modified opinions. If the reporting accountant is not satisfied with the disclosures, the reporting accountant discusses the matter with those responsible for the investment circular and ensures that the appropriate information is included by the issuer or is included in the accountant's report. Where the audit has been undertaken by another firm, the reporting accountant does not normally refer to the name of the auditor in the accountant's report.

Comparatives

78. The reporting accountant is required to provide a report on each period included in the historical financial information to which the reporting requirement relates. In consequence the financial information does not constitute either "comparative information", "corresponding figures" or "comparative financial statements" as contemplated by ISA (UK and Ireland) 710 "Comparative information – corresponding figures and comparative financial statements". Accordingly ISA (UK and Ireland) 710 is not relevant to the work of the reporting accountant.

Consent in the context of investment circulars containing a report by a reporting accountant

79. Paragraphs 66 to 74 of SIR 1000 deal with consent in relation to the inclusion of an accountant's report in an investment circular.

Effective date

80. A reporting accountant is required to comply with the Investment Reporting Standards contained in this SIR for reports on financial information for periods ending on or after 15 December 2010.

EXAMPLES OF ENGAGEMENT LETTER CLAUSES

These examples of engagement letter clauses are intended for consideration in the context of an accountant's report. They should be tailored to the specific circumstances and supplemented by such other clauses as are relevant and appropriate. Suitably adapted, this example may be used for reporting accountant's engagements with respect to AIM admission documents.

For a prospectus

Financial information upon which the report is to be given

We understand that the directors of ABC plc will include in the Prospectus historical financial information for the [three] years ended [] in relation to ABC plc, the last [two years] of which will be presented and prepared in a form consistent with that which will be adopted in ABC plc's next published annual financial statements, having regard to accounting standards and policies and legislation applicable to such annual financial statements in accordance with the requirements of Annex I item 20.1 of the Prospectus Rules.

Responsibilities

The directors of ABC plc are responsible for the historical financial information.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view for the purposes of the Prospectus and to report our opinion to the directors of ABC plc.

Scope of work

We shall expect to obtain such evidence as we consider sufficient and appropriate to enable us to draw reasonable conclusions therefrom. The nature and extent of our procedures will vary according to our assessment of the appropriate sources of evidence. Our work will be directed to those matters which in our view materially affect the overall financial information upon which our opinion is to be given, and will not be directed to the discovery of errors or misstatements which we consider to be immaterial.

It is expected that a substantial part of the evidence which we may require will be contained in the audit files of LMN Accountants. ABC plc has agreed that it will use its best endeavours to ensure that the relevant files are made available to us.

Our work may also depend upon receiving without undue delay full co-operation from all relevant officials of ABC plc and their disclosure to us of all the accounting records of ABC plc

and all other records and related information (including certain representations) as we may need for the purposes of our examination.

For a Class 1 circular

Financial information upon which the report is to be given

We understand that the directors of ABC plc will include in the Class 1 Circular a historical financial information table for the [three] years ended [] in relation to XYZ Limited which will be presented and prepared in a form consistent with the accounting policies adopted in ABC plc's latest annual consolidated accounts in accordance with the requirements of chapter 13 of the Listing Rules.

Responsibilities

The directors of ABC plc are responsible for the historical financial information table.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view for the purposes of the Class 1 circular and whether the financial information table has been prepared in a form that is consistent with the accounting policies adopted in ABC plc's latest annual accounts and to report our opinion to the directors of ABC plc.

Scope of work

We shall expect to obtain such evidence as we consider sufficient and appropriate to enable us to draw reasonable conclusions therefrom. The nature and extent of our procedures will vary according to our assessment of the appropriate sources of evidence. Our work will be directed to those matters which in our view materially affect the overall financial information upon which our opinion is to be given, and will not be directed to the discovery of errors or misstatements which we consider to be immaterial.

It is expected that a substantial part of the evidence which we may require will be contained in the audit files of LMN Accountants. ABC plc has agreed that it will use its best endeavours to ensure that the relevant files are made available to us.

Our work may also depend upon receiving without undue delay full co-operation from all relevant officials of ABC plc and XYZ Limited and their disclosure to us of all the accounting records of XYZ Limited and all other records and related information (including certain representations) as we may need for the purposes of our examination.

APPENDIX 2

**EXAMPLE OF AN ACCOUNTANT'S REPORT ON HISTORICAL
FINANCIAL INFORMATION PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED
BY THE EUROPEAN UNION**

Date

Reporting accountant's address

Addressees, as agreed between the parties in the engagement letter

Dear Sirs

[ABC plc]/[XYZ Limited]

We report on the financial information [set out in paragraphs to] [which comprises⁶], for the [specify periods]. This financial information has been prepared for inclusion in the [describe Document⁷] dated.....of ABC plc on the basis of the accounting policies set out in paragraph []. This report is required by [Relevant Regulation] and is given for the purpose of complying with that [paragraph] and for no other purpose. [We have not audited or reviewed the financial information for the [26 weeks ended ...] [which has been included for comparative purposes only,] and accordingly do not express an opinion thereon.⁸]

Responsibilities

The Directors of ABC plc are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the

6 Where paragraph numbers are not referred to specify the titles of the primary statements on which the opinion is being expressed and refer to the notes to those primary statements.

7 For example, "prospectus", "listing particulars", "Class 1 circular" and "AIM admission document."

8 This wording is relevant where financial information for an interim period is required to be reported on in circumstances where comparative information for the same interim period in the prior financial period is also to be presented, but not reported on.

preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the [*describe Document*] dated, a true and fair view of the state of affairs of [ABC plc]/[XYZ Limited] as at [*specify dates*] and of its profits, cash flows and [recognised gains and losses] [changes in equity] for the [*specify periods*] in accordance with International Financial Reporting Standards as adopted by the European Union [and has been prepared in a form that is consistent with the accounting policies adopted in [ABC plc's] latest annual accounts⁹].

Declaration¹⁰

For the purposes of [Prospectus Rule [5.5.3R(2)(f)] [5.5.4R(2)(f)]] [Paragraph a of Schedule Two of the AIM Rules] we are responsible for [this report as part] [the following part(s)] of the [prospectus] [registration document] [AIM admission document] and declare that we have taken all reasonable care to ensure that the information contained in [this report] [those parts] is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the [prospectus] [registration document] [AIM admission document] in compliance with [item 1.2 of annex 1 of the Prospectus Regulation] [item 1.2 of annex 3 of the Prospectus Regulation] [Schedule Two of the AIM Rules].

Yours faithfully

Reporting accountant

9 The wording in these square brackets is appropriate for inclusion where the report relates to historical financial information included in a Class 1 circular.

10 This declaration is a requirement of the Prospectus Rules and is appropriate for inclusion when the report is included in a Prospectus, see Appendix 2 of SIR 1000. It is also appropriate for inclusion in an AIM admission document under Schedule Two of the AIM Rules.

APPENDIX 3

EXAMPLE OF AN ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION PREPARED IN ACCORDANCE WITH THE BASIS DESCRIBED IN A BASIS OF PREPARATION NOTE

Date

Reporting accountant's address

Addressees, as agreed between the parties in the engagement letter

Dear Sirs

[ABC plc]/[XYZ Limited]

We report on the financial information [set out in paragraphs to] [which comprises¹¹], for the [specify periods]. This financial information has been prepared for inclusion in the [describe Document¹²] dated.....of ABC plc on the basis of the accounting policies set out in paragraph []. This report is required by [Relevant Regulation] and is given for the purpose of complying with that [paragraph] and for no other purpose. We have not audited or reviewed the financial information for the [26 weeks ended ...] [which has been included for comparative purposes only,] and accordingly do not express an opinion thereon.¹³

Responsibilities

As described in paragraph [] the Directors of ABC plc are responsible for preparing the financial information on the basis of preparation set out in note x to the financial information.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the

11 Where paragraph numbers are not referred to specify the titles of the primary statements on which the opinion is being expressed and refer to the notes to those primary statements.

12 For example, "prospectus", "listing particulars", "Class 1 circular" and "AIM admission document."

13 This wording is relevant where financial information for an interim period is required to be reported on in circumstances where comparative information for the same interim period in the prior financial period is also to be presented, but not reported on.

preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the [*describe Document*] dated, a true and fair view of the state of affairs of [ABC plc]/[XYZ Limited] as at [*specify dates*] and of its profits, cash flows and [recognised gains and losses] [changes in equity] for the [*specify periods*] in accordance with the basis of preparation set out in note x¹⁴ [and has been prepared in a form that is consistent with the accounting policies adopted in [ABC plc's] latest annual accounts¹⁵].

Declaration¹⁶

For the purposes of [Prospectus Rule [5.5.3R(2)(f)] [5.5.4R(2)(f)]] [Paragraph a of Schedule Two of the AIM Rules] we are responsible for [this report as part] [the following part(s)] of the [prospectus] [registration document] [AIM admission document] and declare that we have taken all reasonable care to ensure that the information contained in [this report] [those parts] is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the [prospectus] [registration document] [AIM admission document] in compliance with [item 1.2 of annex 1 of the Prospectus Regulation] [item 1.2 of annex 3 of the Prospectus Regulation] [Schedule Two of the AIM Rules].

Yours faithfully

Reporting accountant

14 Where the financial information has not been prepared fully in accordance with a recognised financial reporting framework but, for example, in accordance with a financial reporting framework modified by applying a convention described in the Annexure to this SIR, the accountant's opinion is expressed in terms of the financial information being prepared in accordance with the basis of preparation described in note x to the financial information, rather than in accordance with the financial reporting framework. The basis of preparation note states which accounting convention has been applied and how it departs from the requirements of the recognised financial reporting framework. A statement is made in the note that in all other respects the recognised financial reporting framework has been applied.

15 The wording in these square brackets is appropriate for inclusion where the report relates to historical financial information included in a Class 1 circular.

16 This declaration is a requirement of the Prospectus Rules and is appropriate for inclusion when the report is included in a Prospectus, see Appendix 2 of SIR 1000. It is also appropriate for inclusion in an AIM admission document under Schedule Two of the AIM Rules.

ACCOUNTING CONVENTIONS COMMONLY USED IN THE PREPARATION OF HISTORICAL FINANCIAL INFORMATION IN INVESTMENT CIRCULARS

This Annexure has been compiled by the APB from a number of sources to describe conventions commonly used for the preparation of historical financial information intended to show a true and fair view for the purposes of an investment circular. It does not include basic principles, essential procedures, or guidance promulgated by the APB.

Introduction

- 1 Preparers¹ have regard to accepted conventions which have been developed for the preparation and presentation of historical financial information in investment circulars. They seek to assist preparers, to the extent consistent with established accounting principles, to meet the obligation that the historical financial information should give a true and fair view for the purposes of the relevant investment circular. These conventions also take into account the requirement contained in the Prospectus Directive that the information should be presented in an easily analysable and comprehensible form. The conventions are described in the material presented below.

Disclosure of the financial reporting framework adopted

- 2 Preparers summarise the applicable financial reporting framework within the notes to the financial information. Where one of the conventions described in this Annexure is applied and its application has a material effect on the financial information or is necessary for an understanding of the basis of preparation of the financial information, it is appropriate to describe the treatment adopted in the basis of preparation note in the historical financial information.

Adjustments to the financial information

- 3 Preparers make adjustments, only in respect of material items, in order to:
 - (a) Present the financial information for all relevant years on the basis of consistent, acceptable and appropriately applied accounting policies, in accordance with the applicable requirements;
 - (b) Correct errors; and
 - (c) Record adjusting post balance sheet events where appropriate (see paragraph 13 below).

1 The directors and management of an entity are responsible for the preparation and presentation of the financial statements of an entity. In this Annexure they are collectively referred to as “the preparers”.

- 4 The historical financial information presented will be based on the records of the entity whose historical financial information is presented in the investment circular (referred to as “the entity” throughout this Annexure), for the periods reported on. These records reflect the representations and intentions of the entity’s management at the time the underlying financial information was drawn up. Matters such as the selection of accounting policies, accounting estimates and valuation judgments form part of the responsibilities of management in compiling a record of their stewardship.
- 5 In presenting historical financial information in an investment circular, except insofar as necessary to achieve the objectives set out above, preparers do not seek to replace accounting policies, accounting estimates or valuation judgments with alternatives subsequently selected by themselves. They consider whether the specific application of the basis of accounting originally adopted by management falls within an acceptable range of alternatives (if not, the conclusion will usually be that an error has occurred, which may need to be adjusted). Furthermore, it is not normally appropriate for adjustments to be made to eliminate items of earned income or expenses incurred, nor, in any circumstances, to recognise notional items of income or expense. The historical financial information presented in the investment circular is thus a version of the historical record as presented by the entity’s management and adjustments are introduced only to achieve those specific objectives set out in paragraph 3 of this Annexure.

Trend of results

- 6 The historical financial information included in an investment circular presents a trend of results for the relevant period. In this respect the financial information may be distinguished from the financial information contained in statutory accounts.
- 7 Notional, or other, adjustments that impact net profits or net assets are not introduced in order to make the “track record” more consistent with the entity’s expected operations or structure following the transaction. Such adjustments would anticipate future events and are not consistent with the principle that the historical financial information should record the events which actually occurred during the period of the historical financial information.

Adjustments for change in basis of accounting

- 8 Adjustments are made to ensure that, wherever practicable, the financial information is stated on the basis of consistent accounting policies. Under the PD Regulation (subject to certain transitional provisions in Article 35 of the PD Regulation), the financial information for the most recent year (where audited historical financial information is required for the latest 2 financial years) or most recent 2 years (where audited historical financial information is required for the latest 3 financial years) is required to be prepared and presented in a form consistent with that which will be adopted in the issuer’s next published annual financial statements (having regard to accounting standards and policies and legislation applicable to such annual financial statements). The requirements do not prevent entities from presenting the financial information for all periods in a form

which is consistent with that which will be adopted in the next published financial statements if they so choose. In other contexts such as in a Class 1 transaction, the objective may be for the financial information for all periods to be presented in a form consistent with the accounting policies adopted by the acquirer in its latest annual consolidated accounts.

- 9 When considering the adjustments that may be necessary where a new International Financial Reporting Standard or other relevant accounting standard has been introduced during, or (where applicable under the regulations) subsequent to, the period to which the regulations apply, a relevant factor will be whether the requirements for implementing the new accounting standard provide that it should be applied retroactively once adopted. Where adoption of a new accounting standard leads to the inclusion of a prior year adjustment in the accounts, adjustments are made, to the extent practicable, to reflect the effect of the policy in any relevant earlier period. Where the adoption of a new accounting standard does not lead to the inclusion of a prior year adjustment, for example where the accounting standard is stated to apply to transactions first accounted for after a certain date; no such adjustment is made to the financial information. Where an entity chooses to adopt a new accounting standard early and this is permitted or encouraged, although not required, by that standard, the financial information reflects the same treatment as adopted by the entity.
- 10 Although adjustments may be made for changes in accounting policies, adjustments are not normally made for changes in the methods of applying an accounting policy (whether a one-off change or a series of gradual refinements) or otherwise to correct the entity's accounting estimates, provided that there were no errors. The effect of correcting an estimate in a later period is normally reflected in the result of that period. Consideration may be given to whether an understanding of the trend of results would be assisted by separate or additional disclosure in relation to changes in the methods of applying accounting policies or the impact of a correction of an accounting estimate.
- 11 Occasionally, an accounting policy may have been applied on the basis of considerations other than relevant economic ones (for example where financial statements measure the carrying amount of depreciable fixed assets in accordance with depreciation policies which are influenced by taxation considerations – as is the case in certain jurisdictions). Those presenting historical financial information in an investment circular may determine that an adjustment is necessary in order for the financial information to present a true and fair view, for the purposes of the relevant investment circular.

Audit qualifications relating to non-compliance with accounting standards

- 12 Where the auditor's report(s) on the underlying financial statements was qualified on grounds for example of failure to comply with an applicable accounting standard or disagreement over an accounting treatment, it may be possible to make adjustments so

as to remove the need for a similar qualification in a report on the adjusted historical financial information.

Post balance sheet events

- 13 In determining whether adjustment is to be made for post balance sheet events, subject to the guidance set out above, it is normal practice to consider events only up to the date on which the audit report on the relevant underlying financial statements was originally signed by the auditors except in relation to the final period presented. In respect of this final period, it will be necessary for post balance sheet events to be reflected up to the date on which the historical financial information to be presented in the investment circular is approved by the responsible party. Where the financial information is based upon financial records which were not audited, the relevant date for post balance sheet event considerations in the earlier periods is normally taken to be the date at which the underlying balance sheet was finalised.

Presentation of the financial information

- 14 Subject to the requirements of any applicable regulation, the financial information is presented on a consistent and comparable basis from period to period and includes such presentational changes to the financial information as are necessary in order to achieve this.
- 15 Presentational changes might be made to:
- (a) Present the financial information in a comparable way; and
 - (b) Give due prominence to matters of particular importance in the context of the document in which the financial information is included.
- 16 The financial information contained in the entity's records may not have been presented on a comparable basis from period to period because the convention for presenting financial information adopted in earlier periods may have been different from that adopted in later periods.
- 17 Whenever practicable, financial information is presented in such a way that information which a user of the investment circular might wish to compare, is in fact comparable. Presentational changes of this nature may be categorised as follows:
- (a) Reclassifications (for example, cost of sales reclassified as distribution costs);
 - (b) Re-analyses (for example, restatements of analyses between continuing and discontinued activities);
 - (c) Grossing up of items netted off in earlier periods (for example, matched assets and liabilities previously left off balance sheet);

- (d) Derivation or computation of information undisclosed in earlier periods (for example, profit and loss account subtotals or cash flow statements); and
 - (e) Harmonisation of note disclosures (for example the editing of notes for earlier periods to integrate them with notes for later periods).
- 18 For example, a business classed as a continuing operation in one year may have been designated a discontinued activity in financial statements drawn up for a later period. It will be desirable for the relevant information within continuing operations in the earlier periods to be reclassified as discontinued. Where separate disclosure of information relating to entities acquired during the period has been presented in the financial statements, it is customary to reclassify such information for the purposes of the historical financial information as continuing activities, other than in respect of acquisitions made in the final period of the track record.
- 19 Changes are not, however, made to the presentation adopted in the financial statements on which the financial information is based, unless such changes are consistent with the requirement to give a true and fair view for the purposes of the investment circular.
- 20 Where it is considered that the significance of certain items to an understanding of the financial information may be obscured by the presentation adopted in the financial statements, it is usually appropriate for that presentation to be changed, relevant disclosures to be made or relevant explanations to be introduced to highlight their significance. This approach may be adopted for example to highlight certain categories of expense, such as proprietors' remuneration, in the trading record of a company seeking flotation. It may also be adopted to highlight the results of different classes of business, particularly in cases where there are proposals that a class of business is to be discontinued.
- 21 However, in all cases, changes in presentation would be inappropriate if they are in conflict with applicable accounting standards.
- 22 As noted above, in certain cases regulatory requirements stipulate that information for the most recent two of the three years is to be presented on a basis comparable with that which would be adopted in an issuer's next annual financial statements. In such cases, in order that the reader is able to relate the first year's information to the final two years, preparers may present financial information for the second year on the basis originally reported (and thus comparable with the first year) as well as on the adjusted basis required by the regulation.

Issues connected with underlying financial statements

- 23 Where the entity has prepared accounts consolidating all its subsidiaries during the period, the financial information will, subject to any adjustments made, be the information set out in the consolidated accounts.

- 24 There may be cases where historical financial information is to be prepared for an entity in circumstances where consolidated financial statements do not exist. This may arise for example where the business is a sub-group, the parent company of which was exempt from the requirement to prepare consolidated accounts, or where the business comprises companies under common ownership but which were not constituted as a legal sub-group.

Unconsolidated accounts

- 25 Where there has been a legal sub-group it will usually be appropriate, for ease of analysis and comprehension, for the accounts of the subsidiaries to be consolidated into the accounts of the parent company. For this purpose, specially prepared consolidated accounts may be compiled by the relevant entity, applying the normal conventions for consolidation.

Entities under common management and control

- 26 Where the entities have been under common management and control but do not form a legal group, the historical financial information will normally be presented on a combined or aggregated basis. Under this method, the results and net assets of the relevant entities are aggregated (with eliminations for intercompany transactions and balances), as are the related share capital balances and reserves. If the information is not presented on a combined or aggregated basis then separate historical financial information for entities accounting for substantially the whole of the historical revenue earning record is likely to be required.

Carve outs

- 27 Where a business has formed part of a larger group ("overall group") during the three year period, but has not been accounted for separately, it may be desirable to present a separate track record (a "carve out") for that business ("carve out business"), derived from the records of the overall group. This approach may be preferable to the alternative approach of presenting the track record of the overall group, with appropriate disclosures of operations discontinuing or not acquired. Circumstances where a carve out approach might be followed include flotations of businesses in a demerger and Class 1 acquisitions of divisions of a selling group.
- 28 When considering whether it is appropriate to present carve out financial information, the following factors will be relevant:
- (a) The extent to which the carve out business has been separately managed and financially controlled within the overall group; and
 - (b) The extent to which it is practicable to identify the historical financial information attributable to the carve out business.

- 29 Where the omission of the results and assets of those operations not the subject of the transaction concerned would be misleading in the context of the circumstances in which the historical financial information is to be presented, it will generally be appropriate to adopt the approach of presenting financial information on the overall group. Disclosures are made to assist the user to understand the contribution made by the operations not the subject of the transaction concerned. However, each case will need to be assessed on its own facts and circumstances.
- 30 In preparing the track record for the carve out business, the guidance in paragraph 5 of this Annexure will be relevant. The objective will be, so far as possible, to present a historical record reflecting the events which actually occurred in the reporting period. Whilst it may be possible to identify certain transactions and balances which clearly relate to the carve out business, there will often be cases where the accounting records do not differentiate between items which relate to the carve out business and items which relate to the remainder of the overall group's business. Examples include management overheads, funding arrangements and shared assets. The guidance below discusses some of the elements typically encountered in preparing a carve out track record.
- 31 Clear and comprehensive disclosure in the notes to the historical financial information will normally be needed in the basis of preparation in order for the nature of the historical financial information to be clearly understood. The description would be expected to give a general indication of the process adopted for the preparation of the historical financial information, and describe any factors which are particularly important to an understanding of the manner in which the information has been prepared.
- 32 The accounting policies to be adopted in the carve out accounts will need to reflect the requirements relating to the presentation of historical financial information and may differ from those previously adopted. The question of functional currency should also be considered having regard to the economic environment of the carve out business, which may lead to the adoption of a different functional currency from that of the overall group.

Allocations

- 33 Where transactions or balances are not accounted for within the overall group in a manner which clearly attributes them to the carve out business, it will generally be desirable for a method for allocating the relevant amounts to the carve out business to be identified with a view to providing the fairest approximation to the amounts actually attributable to the carve out business. Any method should be adopted and applied on a rational and consistent basis. It will not, however, be appropriate to make allocations where there is no rational or consistent basis for doing so.

Bases for allocating transactions and balances

- 34 The appropriate basis for allocating group income and expenditure to a carve out business will vary according to the circumstances. It may, for example, be appropriate to allocate centrally accounted-for human resources costs on the basis of headcount (but

account might be taken also of relative levels of staff turnover or other factors which indicate greater or less than average use in deciding whether the approach was in fact appropriate). The costs of a head office accounts department might be allocated by reference to the relevant sizes of the carve out business and remaining group. Again if other factors suggest that size is not a good indicator – if for example a disproportionate number of the accounting team is engaged in work for one part of the business and not the other – refinements to the approach might be considered appropriate.

- 35 It is important to recognise that the purpose of the allocation is to attribute an appropriate element of the overall group record to the carve out business. As a consequence, the position shown will frequently not be that which might have existed if the carve out business had been a stand-alone business. The position will be affected by the arrangements which apply to the group as a whole, which are a matter of historical fact and which it is not the purpose of the carve out financial information to alter. Frequently, disclosure will be made accompanying the financial information highlighting that the information presented may not be representative of the position which may prevail after the transaction.
- 36 Where an element of overall group third party debt is to be assumed by the carve out business, it may be appropriate to allocate an appropriate element of such debt to the carve out business during the historical track record period. The basis for such an allocation may be by reference to the terms of the separation agreement. In other cases, the debt may be treated as part of the carve out business' balance with the overall group. Finance lease borrowings would be expected to be allocated in line with the allocation of the related asset. The allocation of interest income/costs would follow the way in which the related debt and debt instruments have been apportioned.

Relationship with the remaining group

- 37 In addition to transactions with 'third parties', the results of the business will also include transactions with the part of the overall group which is not part of the carve out business (the "remaining group"). Hence, for example, sales which were previously regarded as 'intra group' will need to be re-examined to determine whether they relate to entities within the carve out business or outside it.
- 38 The remaining group will normally also be regarded as a related party for the purposes of disclosing related party transactions, and it will normally be necessary to identify the extent of the relationships between the carve out business and the remaining group. Balances with the remaining group may have comprised elements of trading balances and short term or long term funding balances, which may or may not have been interest bearing. Balances of a trading nature will normally be presented as an element of debtors or creditors. Balances which are considered to be funding in nature (having regard inter alia to the use made of the balances, the period for which they remain outstanding and the level of other capital) will normally be classified according to their general nature. Where the balance is interest bearing and has other characteristics of debt, it will be

presented in the manner of debt financing. Where the balance does not have the characteristics of debt, it will be re-classified from creditors into capital and be presented in the manner of equity, typically aggregated with the share capital and reserves of companies comprising carve out business, as 'parent company net investment' in the carve out business.

- 39 Balances with the remaining group may also contain elements of third party debtors or creditors which have been accounted for on behalf of the carve out business by the remaining group. Examples might be VAT costs, payroll taxes, certain customers or suppliers common to the carve out business and the remaining group, and external funding balances. Such elements of the balance with the remaining group would be expected to be reallocated to the appropriate third party captions.
- 40 Consolidation journals within the overall group accounting records will need to be analysed and, if appropriate, allocated to the carve out business.

Pension costs

- 41 Where employees of the carve out business participate in a pension scheme relating to the overall group, the track record of the carve out business would reflect the apportioned costs applicable to the carve out business. The accounting implications of any pension surplus/deficit attributable to the carve out business would also normally be expected to be reflected in the track record.

Acquisitions

- 42 Acquisitions will be treated in accordance with the guidance in paragraphs 50 to 52 of this Annexure. It should be noted that acquisitions previously regarded as too small for separate disclosure in the overall group accounts may become sufficiently material to require separate disclosure in the context of the carve out business.

Disposals, non recurring and exceptional items

- 43 Non recurring and exceptional items are generally allocated to the carve out business and accounted for in accordance with the applicable accounting standard. The treatment of disposals follows that described in paragraph 53 of this Annexure.

Taxation

- 44 Tax charges are generally allocated to the carve out business to reflect the proportion of the overall group charge attributable to the carve out business. The approach will typically involve the aggregation of the tax charges actually incurred by the companies within the carve out business (and will therefore reflect the benefits, reliefs and charges arising as a result of membership of the overall group), after taking account of the tax effects of any adjustments. Where the information relating to the tax charges actually incurred is not available, the tax charge may be recomputed on the basis of the results of the carve out business. The tax rate applied is selected having regard to the tax position of the overall group and might thus include the impact of benefits, reliefs and charges

arising as a result of membership of the overall group, to the extent that they would have been available to or imposed upon the carve out business.

Cash flow statements

- 45 A cash flow statement is prepared for the carve out business based on the carve out information. Where the overall group operates a central cash account, cash flows relating to centrally settled costs are allocated to the carve out business to the extent that the related balances are allocated to the carve out business.

Investments in subsidiaries, joint ventures and associates

- 46 The status of an entity in the overall group's accounts (that is, whether it is recorded as a subsidiary, joint venture or associate) may be the result of investments in the relevant entity by more than one group company. If not all the investing companies are to be part of the carve out business, this may mean that the status of the entity in the track record of the carve out business is different from that within the overall group. Additional or new disclosures may therefore be required.

Treatment of other items

- 47 Dividends are expected to be reflected in the track record of the carve out business where companies within the carve out business have paid dividends to members of the remaining group.
- 48 In relation to the disclosure of directors' remuneration, it is normal to present information for those individuals who are to be directors of the carve out business or who were employed by the overall group in a capacity equivalent to that of a director of the carve out business. The information disclosed will reflect the salaries and benefits paid in respect of services to the carve out business by any member of the overall group to those individuals (irrespective of whether the individuals were directors or not) during the period covered by the track record. No information is presented for proposed directors of the carve out business who were not employed by the overall group, or for individuals who served as directors of companies within the carve out group but who are not to be directors of the carve out group's holding company following the transaction.
- 49 A segmental analysis is prepared for the carve out business to reflect the segments which the carve out business has decided to adopt.

Acquisitions

- 50 Entities acquired during the period covered by the historical financial information will typically be accounted for, in the records of the acquiring entity, in accordance with the accounting treatment applicable, having regard to the set of accounting standards adopted. Hence, for example, if the accounting standards require acquisition accounting, the acquired subsidiary will be accounted for from the date of acquisition by the acquiring entity.

- 51 Chapter 13 of the Listing Rules states that, in the case of a Class 1 acquisition when, during the three year period to be covered by the historical financial information (or in the lesser period up to the date of the acquisition if the target's business has been in operation for less than 3 years), the target has acquired or has agreed to acquire an undertaking which would have been classified, at the date of the acquisition, as a Class 1 acquisition, financial information on that undertaking must be given, which covers as a minimum the period from the beginning of the three year period to the date of acquisition.
- 52 Generally (and typically where the acquisition has been or will be accounted for under the acquisition method), the requirement outlined in paragraph 50 of this Annexure leads to a separate table of historical financial information covering the results of the acquired subsidiary undertaking during the period prior to acquisition. The Listing Rules contain no express contents requirements for acquisitions which would have been classified as smaller than Class 1 (ie a Class 2 or Class 3 transaction), although Listing Rule 13.3 contains contents requirements applicable to all circulars. Additional financial information may be required where the financial information presented in the entity's own track record does not account for substantially all of the track record of the business during the three year period.

Disposals

- 53 Disposals of subsidiaries or a discontinuation of a material section of the business are reflected by separate analysis between the continuing business and the disposed or discontinued business, either under the relevant headings in the profit and loss table or in the notes to the historical financial information. It is not normally appropriate to make adjustments to eliminate the results of subsidiaries that have been disposed of or discontinued operations from the trading record. However, it may not be necessary to introduce the results of a subsidiary that has been disposed of or a discontinued operation into specially prepared consolidated accounts or combined accounts prepared having regard to the considerations set out in paragraphs 25 to 49 of this Annexure, unless the inclusion of such information is relevant to an understanding of the business to which the historical financial information relates.

Financial information on newly formed issuers

- 54 In many cases, investment circulars are prepared in relation to newly formed companies (for example start up businesses, investment trusts, newly formed holding companies etc). Generally such companies will not have prepared accounts for a financial year at the time the investment circular is to be issued and consequently financial statements will need to be prepared for the purposes of the investment circular.

Unincorporated entities and entities producing limited accounting information

- 55 Acquisitions may involve entities which do not prepare financial information which meets the standards required for statutory accounts in the UK (and additionally may not have been subject to the disciplines of an external audit). The accounting conventions adopted may be devised for internal management accounting purposes rather than to

meet more generally applicable accounting standards. In such cases, it may not be possible to present financial information meeting the requirements of the relevant regulations. The decision as to what information to present will depend upon the degree to which the information can be regarded as sufficiently relevant and reliable having regard to the purpose for which it is presented. Frequently the purpose will be to assist shareholders in a decision; it is for those responsible for the investment circular to weigh up the balance between depriving shareholders of information which may be relevant to a decision and being satisfied that the information presented is of sufficient quality to be properly used as the basis for a decision. Where there is significant doubt about the quality of the financial information available, those responsible for the investment circular would be advised not to present it in the investment circular. This may lead to very limited financial information appearing in the relevant investment circular. In the case of an investment circular regulated by the UK Listing Authority, the position should be discussed in advance with the UK Listing Authority.

Changes in the legal form of entities

- 56 There may be circumstances where businesses have been carried on during the period covered by the report by different legal entities with the consequence that the relevant financial information may be found in the accounts of different legal entities. A typical example is a management buy-out, where prior to the buy-out, the business might have been accounted for in the financial statements of a subsidiary undertaking of the vendor, but, following the buy-out, the financial information may be that of the entity formed to effect the acquisition.
- 57 In cases where the legal entity accounting for the business has changed (for example where a business has been transferred from one entity to another – typically a newly formed company) but where there is no essential change in the underlying business, it is normal for the financial information to be presented as part of a single table, with the results of the predecessor entity shown next to those of the successor entity (generally on a combined basis in the period during which the transaction took place).
- 58 A consequence of the change in legal entity may be a change in the capital structure. Frequently, where there is a management buy-out, debt becomes a significant part of the capitalisation of the business. In order to highlight for the reader the potential lack of comparability between periods, a statement is often included within the introduction or beneath the profit and loss account (and in the relevant notes) referring to the change in capital structure and alerting the reader to the fact that the information relating to financing costs may not be comparable throughout the period. In certain cases, where the effect is material to an appreciation of the figures, it may also be necessary to draw attention to a discontinuity in values attributed to balance sheet items. In circumstances where, as in the case of a management buy-out, fair value adjustments have been made during the period covered by the historical financial information, it is inappropriate to attempt to show the impact of such adjustments on the results prior to the acquisition.

However, the impact of the fair value adjustments is, where practicable, highlighted in respect of the post-acquisition results.

Earnings per share

- 59 In cases where there has been a capital reorganisation since the date at which the last balance sheet was drawn up, it will usually be appropriate for the earnings per share figures disclosed to be adjusted to reflect the reorganisation (to the extent that it involves issues of shares for no consideration, issues containing a bonus element, share splits etc). In such cases, the number of shares used in the earnings per share calculation is adjusted so that the shares originally in issue are replaced by the number of new shares, representing the shares originally in issue, following the reorganisation. Where shares have been issued during the period, this is taken into account in calculating the equivalent weighted average number of post-reorganisation shares. Where the reconstruction involves conversions, for example of preference shares or loan stock, the earnings figures used in the calculation of earnings per share may also need to be adjusted to eliminate the effect of any related preference dividends or interest.
- 60 Difficulties may also arise over the relevance of the earnings per share figure in certain cases, for example where prior to flotation a new holding company has been created. In such cases an earnings per share figure based on the share capital of the subsidiary may be of limited significance to investors. Accordingly, it is usually appropriate to include a supplementary earnings per share figure, in addition to the historical earnings per share figure, based on the relevant number of shares in the new parent company (before the issue of shares to raise new funds). This approach is also generally adopted in the case of a carve out business which did not have share capital during the reporting period. Where the effect is material and where practicable, the number of shares used for the purposes of the calculation is adjusted to reflect variations in the levels of capital funding the operations arising, for example, from issues of equity for cash during the period under review. In some circumstances, such as where there has been a management buy out during the period reported on, the differences in the capital structure may be such that a comparison of the earnings per share figures is not meaningful. Where this is the case, the statement to be included beneath the profit and loss table mentioned above generally refers also to the lack of comparability of the earnings per share information.

Reporting currency

- 61 Where historical financial information is to be presented on a target entity, and that target has reported historically in a currency other than that of the acquiring entity, it is normal to present the financial information in the target's original reporting currency.

Extraction without material adjustment

- 62 In a Class 1 circular, the listed company must (in addition to citing the source of the information) state whether the financial information that has been extracted from audited accounts was extracted without material adjustment. It is not possible to prescribe conditions for determining whether an adjustment will be a material adjustment in any

given case, although presentational changes which do not have the effect of altering net assets, are normally permitted to be made. The UK Listing Authority will need to agree the approach in individual cases.

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