

May 13, 2016

Michael P. Glynn, CPA
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Re: December 8, 2015 ARSC Exposure Draft (ED) of Proposed Statements on Standards for Accounting and Review Services (SSARs):

- ***Compilation of Prospective Financial Information***
- ***Compilation of Pro Forma Financial Information***
- ***Omnibus SSARS—2016***

Dear Mr. Glynn:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC supports a separate engagement for the preparation of prospective financial information (PFI). However, TIC believes the proposed amendments to AR-C 70, *Preparation of Financial Statements*, are not adequate to ensure that preparation engagements would be performed in accordance with professional standards. TIC has provided specific recommendations to add additional requirements and to improve consistency, where appropriate, with other related standards.

TIC agrees with ARSC's conclusion that a representation letter should not be required for a compilation engagement on PFI, since management's responsibilities are sufficiently documented in the engagement letter and the compilation report. TIC has offered some suggested language changes in the engagement letter pertaining to these matters for ARSC's consideration.

TIC supports the proposed amendments to AR-C 80, *Compilation Engagements*, and AR-C 90, *Review of Financial Statements*, but is requesting ARSC to revise the guidance on reviews of specified elements, accounts or items of a financial statement and other historical financial information. In addition, TIC had no comments on the proposal on *Compilation of Pro Forma Financial Information*.

SPECIFIC COMMENTS

Preparation of Prospective Financial Information

Completeness and Consistency Issues with AR-C 70

In principle, TIC supports expanding the applicability of AR-C 70 to apply to the performance of a preparation engagement on PFI. However, TIC believes the proposed amendments to AR-C 70 are not sufficiently robust to ensure that preparation engagements involving PFI will be performed in accordance with professional standards.

TIC appreciates the Committee's desire to create a concise, uncluttered standard for the preparation of PFI, especially since the AICPA Guide, *Prospective Financial Information* (the PFI Guide), for all practical purposes, has been the only resource that practitioners have needed to perform these engagements. TIC also believes that the PFI Guide should continue to be the source of comprehensive guidance on PFI engagements. However, standard-setting conventions dictate that a SSARS should be the foundation or "hook" for all of the requirements that practitioners need to follow in a standard. An AICPA guide can interpret or explain those standards but cannot set new requirements.

TIC deliberated the proposed amendments to AR-C 70 with these conventions in mind and compared the PFI amendments in the preparation proposal to the level of guidance provided in the *Compilation of PFI* proposal. As a result, TIC believes the proposed amendments to AR-C 70 are lacking some important requirements that are necessary to prepare PFI properly and efficiently. TIC's concerns are presented in detail below.

As written, the ED is silent as to the existence of the PFI Guide. TIC believes it would be a mistake for ARSC to assume that most practitioners are aware of the existence of the Guide (especially those who are performing a PFI engagement for the first time). Although AR-C 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*, already states that AICPA guides containing preparation, compilation or review guidance represent interpretive publications that should be considered in performing any PFI engagement, TIC believes this guidance is not enough. When a specific subject guide exists (such as the PFI Guide), it should be cited in the standard and practitioners should be reminded that it is a necessary and authoritative resource when preparing PFI. Otherwise, practitioners may not find the Guide on their own, even if they make an effort to search for an interpretive publication. Omitting the reference to the PFI Guide is also inconsistent with Statement on Standards for Attestation Engagements No. 18, *Attestation Standards: Clarification and*

Recodification, AT-C 305, Prospective Financial Information, and the proposal on the compilation of PFI, both of which cite the PFI Guide specifically.

The proposed amendments to AR-C 70 include very few of the special requirements from the compilation of PFI proposal, thus giving practitioners the impression that none of the omitted requirements would apply to a preparation engagement. For example, below are a few of the paragraphs from the engagement letter section of the compilation of PFI proposal that have been omitted from the engagement letter section of the amended AR-C 70:

- 13g: The responsible party's agreement that the prospective financial information will include disclosure of the significant assumptions.
- 13i: If the prospective financial information is a partial presentation, the responsible party's agreement that the partial presentation will not be distributed to those who will not be negotiating directly with the responsible party.

TIC believes the above elements from the compilation of PFI engagement letter would apply equally to a preparation engagement. If ARSC agrees, TIC encourages the Committee to repeat key requirements in both standards. TIC believes such repetition, where appropriate, would be consistent with the approach taken in the development of AR-C 70 and AR-C 80. In the compilation v. preparation of historical financial statements, ARSC added requirements to AR-C 70 to ensure that practitioners understood which requirements from the compilation SSARS also applied to the Preparation SSARS. Although a fair amount of guidance was moved from the SSARS to the Preparation, Compilation and Review Guide, core requirements were retained in the SSARS.

Since compilation and preparation of PFI are similar services, TIC believes most of the requirements should also be similar. When similar standards are structured differently, practitioners will assume that omitted guidance from one of the standards is not required. TIC therefore believes that ARSC should reconsider the structure and content of this proposal.

Without additional guidance on scope considerations for PFI engagements, practitioners may not understand when the SSARS applies. For example, preparation of budgets is not mentioned as part of the scope of the proposal. As a result, practitioners might not realize that a budget can be a forecast. If practitioners are not provided essential information as to scope, it is not practical to assume that they will find it on their own.

TIC also believes that practitioners need enough information in the standard to make a decision about whether they wish to accept or continue an engagement. Practitioners should not have to purchase an AICPA guide to find out whether the services they've been asked to perform meet the preconditions of the service.

For all of the above reasons, TIC believes practitioners would be unable to implement the requirements for the preparation of PFI efficiently and effectively without additional

information in the standard. The minimalist approach used in the PFI amendments in AR-C 70 is not user-friendly and could result in practitioners misunderstanding or overlooking the purpose and applicability of the SSARS.

Recommendations

TIC deliberated possible alternative presentation formats and structures for addressing the requirements related to the preparation of PFI. TIC admits that it is difficult to reach a conclusion on the best course of action to increase the extent of the guidance and improve the usefulness of the standard while avoiding excessive duplication. However, the majority of TIC members favored one of the following approaches:

- Combining the requirements and guidance for preparation of PFI with compilation of PFI and renaming that proposed SSARS, *Prospective Financial Information*. Some members believed merging compilation and preparation of PFI into one standard might result in the least amount of duplication. An appendix could be added to the merged standard to illustrate the differences between a preparation and compilation engagement.
- Developing a separate SSARS for preparation of PFI and removing all PFI-related amendments from AR-C 70. Some of the members who favored this approach indicated that having preparation guidance for PFI and historical financial statements in one standard would be cumbersome.

A few TIC members continued to believe that adding further amendments to AR-C 70 would be the best course of action. They believed that amending AR-C 70 would result in the least duplication.

Below are specific recommendations for enhancing the guidance related to preparation of PFI. The recommendations assume that any further revisions approved by ARSC will be amendments to AR-C 70. Some of the recommendations might not be applicable if ARSC decides to pursue an alternative course of action (such as moving guidance on the preparation of PFI to another standard).

TIC believes its recommendations will improve the clarity and usefulness of the final standards. Some of the recommendations are also specifically designed to improve the consistency between AR-C 70 and the proposed SSARS on Compilation of PFI, much the same as AR-C 70 was modified to align it, as necessary, with AR-C 80.

TIC's detailed recommendations are as follows:

- AR-C 70 should include requirement and application paragraphs to reference the PFI Guide, which provides comprehensive preparation guidance and illustrative financial statements and effectively serves as the applicable financial reporting framework for PFI. TIC suggests that paragraphs 3, .16, .A1 and .A8 from the

Compilation of PFI proposal, adapted as necessary, would be sufficient. As mentioned above, if these paragraphs are not added to the preparation standard, practitioners may not realize that presentation and preparation guidelines exist for forecasts and projections.

- AR-C 70 should be amended to include certain preconditions for the acceptance and continuance of a preparation of PFI engagement, including:
 - prohibiting the accountant from accepting an engagement to prepare a projection if the accountant has reason to believe that the projection will be distributed to those who will not be negotiating directly with the responsible party. This requirement would be similar to the precondition discussed in paragraphs 9 and .A12 from the Compilation of PFI proposal.
 - prohibiting the accountant's involvement with a partial presentation if the accountant has reason to believe that the partial presentation will be distributed to those who will not be negotiating directly with the responsible party.

This suggestion corresponds to paragraphs 8.07, 23.03 and 23.18 in the PFI Guide. This precondition has not been included as a precondition for compilation of PFI, but TIC believes it should be added to that SSARS as well, unless ARSC believes that all partial presentations should be available for general use.

- prohibiting the accountant's involvement with PFI that does not include disclosure of the summary of significant assumptions and certain other disclosures relating to a projection (as discussed in paragraph 10 of the Compilation of PFI proposal). As noted on the next page, this requirement is already included as a proposed amendment within the "Financial Statements That Omit Substantially All the Disclosures..." section of AR-C 70. However, TIC believes the paragraph is in the wrong place within the proposal and recommends that it be moved to a section entitled Acceptance and Continuance of Client Relationships.
- requiring that the responsible party review and adopt the assumptions or analysis that the accountant has prepared in order for the PFI to be suitable for general use. This is based on guidance in the PFI Guide, paragraph 10.13.

TIC believes matters that could affect acceptance or continuance of a preparation service involving PFI are important considerations to discuss with the responsible party before an engagement letter is drafted. If the preconditions are specified up front, practitioners may not be made aware of this prohibition until after the engagement has already been accepted. In addition, adding these requirements to the preparation engagement would improve the consistency between the two engagements.

If ARSC decides to add the above preconditions for engagement acceptance and continuance to AR-C 70, a corresponding change will be needed to extant paragraph .09 in AR-C 70 to refer to the extra preconditions.

- The elements of the engagement letter in the compilation of PFI proposal (paragraphs 13-14) differ in a number of respects from the engagement letter elements in a preparation of historical financial statements. However, section 70 of the Omnibus proposal has not been modified to include those unique elements. If AR-C 70 is not amended to refer to the special elements needed for an engagement letter for preparation of PFI, practitioners are very likely to overlook these provisions and to prepare incorrect engagement letters.
- The existing Appendix to AR-C 70 (paragraph .A19—Preparation of Financial Statements Versus Assistance in Preparing Financial Statements) should be expanded to provide examples of the preparation of a financial forecast or projection versus assistance in preparing a financial forecast or projection. For example, if the responsible party engages the practitioner to develop assumptions only without preparing the PFI or to read the PFI and propose adjustments, as needed, these would be examples of engagements that would not fall under the Preparation SSARS for PFI. The above example is somewhat similar to this example in paragraph 10.13 of the PFI Guide:

...A practitioner may be engaged to prepare a financial analysis of a potential project in which the engagement includes obtaining information, making appropriate assumptions, and assembling the presentation. Such an analysis is not, and should not be characterized as, a forecast (or projection) and would not be appropriate for general use. However, if the responsible party reviewed and adopted the assumptions and presentation, or based its assumptions and presentation on the analysis, the practitioner could compile or examine a forecast and issue a report appropriate for general use. (Source: AT 301.06)

TIC believes examples would help the accountant determine whether the engagement is within the scope of the preparation SSARS. TIC was also uncertain whether the above example from paragraph 10.13 of the PFI Guide will be carried forward (in a modified form) to the revised PFI Guide. It implies that the line between preparation and assistance in preparation may, in part, depend on the responsible party's actions with respect to the work performed. TIC believes this is an important distinction, since identifying the service(s) that the accountant has been engaged to perform will affect to what extent the proposed amendments will change practice.

- Budgets: Extant AT 301.59 and paragraph 10.20 of the PFI Guide allow an accountant to present an unexpired budget for the current year alongside interim

historical financial statements for the same year without requiring disclosure of the summary of significant assumptions for the budget, as long as the presentation does not involve any intention to mislead users and the omission of the summary was disclosed. TIC believes this exception should be retained in the SSARS and recommends that it be added as a permitted exception to the preconditions of a preparation of PFI engagement.

- TIC recommends that ARSC review the procedures in the compilation of PFI proposal relating to development of the assumptions and determine whether they would apply in a preparation engagement. TIC is concerned that there may be inconsistencies between the requirements in paragraph 17 of the compilation of PFI ED and AR-C 70. One of those was the “reasonably objective basis” consideration in paragraph 17(c) and .A20 and A.21. The language in these paragraphs is consistent with paragraph 10.14 of the current PFI Guide. The consideration of whether the responsible party has a reasonably objective basis for a forecast is a factor in determining whether the forecast is misleading. Although the accountant is preparing the forecast and assisting with the development of the assumptions, the accountant cannot develop the assumptions without assistance from the responsible party. TIC requests clarification as to whether the accountant would be bound by all of the compilation procedures in a preparation engagement, especially the need to determine whether a reasonably objective basis for the forecast exists.

If omission of these procedures from AR-C 70 was deliberate, TIC suggests that the revised PFI Guide explain why they are required in a compilation, but not in a preparation engagement.

- If the accountant has been engaged to prepare PFI and the responsible party instructs the accountant to prepare the forecast or projection with certain presentation deficiencies or to omit disclosures other than those relating to significant assumptions, AR-C 70 should include a requirement to disclose such omissions in the forecast or projection. Effectively, such guidance would illustrate how paragraphs .19 and .20 of AR-C 70 would apply to a PFI engagement. TIC believes this guidance belongs in what is now paragraph 21 of the preparation of PFI proposal under the heading “Financial Statements That Omit Substantially All The Disclosures Required by the Applicable Financial Reporting Framework.”
- A standalone budget for a future year would qualify as a forecast under the PFI Guide. However, Chapter 22 of the PFI Guide included special guidance when the accountant performed “other services” (such as assembly) on the forecast. The accountant does not have to report on the presentation, and the responsible party must agree that it is for internal use only. The PFI Guide also permits the accountant to report on this presentation, but if the accountant does so, the report has to be restricted as to use. TIC believes the new SSARSs will result in a change in practice for those accountants that have performed assembly services. At a

minimum, a legend would be required for all preparation (assembly) services, but the presentation would not be limited as to use. TIC requests that ARSC publicize this change and address this issue in the PFI Guide to ensure that practitioners understand how the new guidance would apply to these presentations.

Compilation of PFI

Representation Letters

TIC agrees that obtaining a representation letter from the responsible party should not be a required procedure in a compilation of PFI engagement... When the accountant is not obtaining or providing assurance on the PFI, TIC believes the engagement letter, which management signs before the engagement begins, and the new assertion in the accountant's report that is made at the end of the engagement represent sufficient documentation of management's responsibilities. However, TIC believes some additional amendments are necessary within the engagement letter to conform to language in the PFI Guide and to improve clarity.

AT 301.69.5(i), Appendix B, which includes compilation procedures for PFI, currently requires the representation letter to include the responsible party's written assertion, to the best of its knowledge and belief, that the forecast/projection presents the expected financial position, results of operations and cash flows for the period and that the forecast/projection reflects its judgment, based on present circumstances, of the expected conditions and its expected course of action. However, there is no current requirement in AT 301 to include a similar assertion in the compilation report. The proposed SSARS on the compilation of PFI would change the compilation report to include an assertion by management about the accuracy of the presentation.

TIC agrees with the change, but believes it is significant enough to warrant further amendments to the engagement letter in the proposed compilation SSARS. In the proposed engagement letter requirements, management would have to agree that it is responsible for the preparation and fair presentation of the forecast or projection and would have to agree to disclose significant assumptions. However, the proposed engagement letter never tells management that its assertion (i.e., that the forecasted financial statements present, to the best of its knowledge and belief, the expected financial position, results of operations, and cash flows) will appear in the compilation report. At a minimum, the Our Report section of the engagement letter should mention that the above language will appear in the report. TIC believes such disclosure in the engagement letter would be consistent with AR-C 80.10(f), which requires the engagement letter on the compilation of historical financial statements to include the "expected form and content of the accountant's compilation report..." Amendments to the Management Responsibilities section of the engagement letter may also be desirable.

Also, the assertion in the ED is shorter than the assertion that was included in AT 301 and the Guide, which included an additional representation that the PFI reflects the responsible party's judgment, based on present circumstances, of the expected conditions

and its expected course of action. TIC recommends that ARSC conform the assertion that will appear in the compilation report to the text of the assertions in extant literature.

The Description of the Limitations on the Usefulness of a Projection

Paragraph 10b of the compilation of PFI proposal states that one of the preconditions for acceptance of a compilation engagement of PFI is that “a description of the limitations on the usefulness of the presentation” should be disclosed. TIC has two separate comments relating to this subparagraph.

First, the language in paragraph 10b implies the description of the limitations on the usefulness of the presentation is applicable to both forecasts and projections. Based on the discussion in paragraphs 8.29P and 10.11P of the Guide and AT-C 305.11(b) and .29(c), TIC believes this is incorrect. These paragraphs are italicized in the Guide, meaning that the disclosure pertains only to projections. TIC recommends paragraph 10b be revised as follows:

A description of the limitations on the usefulness of the presentation, if the prospective financial information is a projection. [Proposed new language is underlined.]

Alternatively, paragraphs 10b and 10c could be combined under one sub-bullet, since both relate to projections only. TIC also believes that a similar requirement should be added for partial presentations. See paragraph 23.14 in the PFI Guide and AT-C 305.11(c) and .37.

Second, “the description of the limitations on the usefulness of the presentation” is not a concept that is well understood. Many may believe that the usefulness of the presentation is limited because the projected results may not be achieved. However, TIC believes this is not what the Guide intended.

After careful reading of the illustrative language in paragraph 8.29P and in the illustrative financial projection on page 90, TIC believes the description of the limitations on the usefulness of the presentation is a statement that follows the description of the special purpose of the projection and should say:

Accordingly, this projection may not be useful for other purposes.

Although TIC assumes this is the intended purpose for the requirement, this concept is less than obvious in the Guide. TIC therefore recommends that ARSC consider whether the above sentence is meant to satisfy the requirement for a description of the limitation on the usefulness of the projection and, if so, include the sentence as an example in the application material of the final SSARS.

Using “Other Suitable Criteria” in the Compilation of PFI

Paragraph .A1 of the proposed SSARS on the compilation of PFI permits the use of “other suitable criteria” in lieu of the preparation and presentation guidelines in the AICPA Guide. TIC believes practitioners will need more specific guidance beyond “this section should be adapted as necessary in the circumstances.” TIC suggests that, if retained, ARSC describe or provide examples of suitable criteria.

When other suitable criteria are used to prepare a forecast or projection, modifications should be made to the illustrative reports in the Exhibits. Practitioners are very likely to use the illustrative reports in the Exhibit verbatim and may not realize that the reports assume that the PFI was prepared using the preparation and presentation guidelines in the Guide. At a minimum, practitioners should be advised that the following sentence from the illustrative compilation report should be modified to specify the preparation and presentation criteria that were used:

Management is responsible for preparing and presenting the forecast in accordance with [describe the other suitable criteria] ~~the guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants (AICPA).~~

Engagement Letter Requirement Re: Limited Use of Financial Projection

TIC noted an inconsistency between paragraphs 13(h)(i) and 13(i) in terms of the responsible party’s agreement to not distribute a projection v. partial presentation to parties that are not negotiating directly with the responsible party. Paragraph 13(i) includes the requirement that the responsible party should agree to not distribute a partial presentation to “those who will not be negotiating directly with the responsible party.” However, the requirement in paragraph 13(h)(i) relating to the distribution of a projection omits the above language even though the requirement is essentially the same. TIC believes this may be an unintended omission, since paragraph 13(h)(i) was probably intended to be consistent with the language in the sample engagement letter in Illustration 2—An Engagement Letter for a Compilation of a Financial Projection. Paragraph 13(h)(i) also should be consistent with the report language for the alert that is discussed in paragraph 21.

Therefore, TIC recommends that paragraph 13(h)(i) be revised as follows:

If the prospective financial information is a projection, the responsible party’s agreement that the financial projection

- i. is not appropriate for general use and is intended solely for the information and use of [specified parties] and is not intended to be and should not be used by anyone other than those specified parties.*
[Proposed new language is underlined]

Section Heading—Modifications of the Standard Accountant’s Compilation Report

This heading is used a title above paragraphs 25 and .A31 in the Compilation of PFI ED. TIC believes use of the word “modifications” should be avoided in any SSARS or proposed SSARS that relates to compilation engagements, since its use could be associated with an adverse or qualified opinion. TIC suggests the heading be replaced with two separate headings for “Reporting on Presentation Deficiencies or Omitted Disclosures” and “Reporting on Partial Presentations.”

Editorial Issues

Paragraph .A24 seems to be requirement for the reporting elements of paragraph 20 to apply to partial presentations. TIC recommends moving paragraph .A24 to the requirements section.

Illustration 2—An Accountant’s Compilation Report on a Projection That Does Not Contain a Range—Page 38 of 76:

- 4th line – “accompany” should be “accompanying”
- 7th line – Insert new paragraph with sentence beginning: I (We) have performed a compilation engagement....

OMNIBUS SSARS—2016 ED (Excluding AR-C 70, which was discussed above)

Amendments to AR-C 80, Compilation Engagements

Paragraph 27 of AR-C 80 indicates that when reporting on departures from the applicable financial reporting framework, “the accountant should modify the compilation report to disclose the departure.” [Emphasis added] TIC believes that the phrase “modify the compilation report” should not be used in the SSARS for Compilation Engagements, since it implies an adverse or qualified opinion.

TIC recommends alternative language, such as the following:

...the accountant should disclose the departure in the compilation report.

If the ARSC decides to make this change, the following paragraphs in AR-C 80 would also need to be revised: .18, .19, .31, and .A3.

Amendments to AR-C 90, Review of Financial Statements

Reviews of Specified Elements, Accounts or Items of a Financial Statement and Other Historical Financial Information

TIC believes an additional amendment to AR-C 90, other than those that are proposed in the ED, is necessary to change the guidance relating to reviews of specified elements, accounts or items of a financial statement. TIC obtained guidance from former ASB

member and Chair of the Attestation Standards Clarification Task Force Don Pallais on this matter.

As written, AR-C 90 permits, but does not require, a review of specified elements, accounts or items of a financial statement to be performed under the SSARS. TIC believes this conclusion is incorrect based on the current and recently clarified attestation standards. Both extant (AT 101.01, .04) and the forthcoming clarified (AT-C 105.01, .03) attestation standards apply to all reviews except those for which standards are established by SASs and SSARSs. Thus, the applicability of the attestation standards depends on the SSARS: if SSARSs establish the standards, the attestation standards do not apply; if the SSARSs don't establish the standards, the attestation standards apply.

If the SSARSs do not establish the standards applicable to reviews of elements, accounts, or items of a financial statement, the attestation standards, not SSARSs, govern. Although the two sets of review standards are similar, they are not identical, and an accountant who applies AR-C 90 as suggested in AR-C 90.01 would likely not comply with AT 101 and would be in violation of professional standards. It would unnecessarily cause an accountant to have to defend himself or herself against quality control reviewers, peer reviewers, regulators, or plaintiffs who read the standard literally. That doesn't seem to be an optimal outcome. In addition to these considerations, TIC believes that, for the sake of clarity, practitioners should not be given a choice of two different standards to perform the same engagement.

Although there are several options for addressing this issue, TIC prefers that the SSARS require AR-C 90 to be followed when the accountant has been engaged to review specified elements, accounts or items of a financial statement.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees