

May 30, 2014

Ms. Sharon Macey  
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**Re: January 28, 2014 ASB Exposure Draft of a Proposed Statement on Standards for Attestation Engagements, *Subject-Matter Specific Attestation Standards: Clarification and Recodification*:**

- **Chapter 5: Financial Forecasts and Projections (Extant AT 301)**
- **Chapter 6: Reporting on Pro Forma Financial Information (Extant AT 401)**
- **Chapter 7: Compliance Attestation (Extant AT 601)**

Dear Ms. Macey:

One of the objectives that the Council of the American Institute of Certified Public Accountants (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**

Comparatively speaking, practitioners within TIC's constituency tend to have minimal experience with engagements involving the Subject-Matter Attestation Standards. Of the three engagement types included in the scope of this ED, most of TIC's comments relate to the proposed standard on financial forecasts and projections since TIC members had more experience with these engagements than the others.

A majority of TIC member firms perform engagements on prospective financial information, although most of them limit their practices to compilation engagements, which are outside the scope of this ED. Only one TIC member firm performs all three

services (examinations, agreed-upon procedures and compilations) on presentations of prospective financial information.

Certain subject-matter attestation engagements (e.g., those involving prospective financial information) are also inherently difficult. Understanding the requirements of these engagements may require extensive reading of multiple sources. For example, once the clarification and recodification project is complete, practitioners performing engagements on prospective financial information will be responsible for, at a minimum,

- The Common Concepts Chapter In the Attestation Standards
- The applicable standard for the level of service performed (examination or AUP in the Attestation standards or compilation / assembly engagements in the SSARS)
- The Prospective Financial Information Guide (which includes unique presentation guidance for forecasts and projections in addition to supplementary guidance on each level of service)

Since these engagements can involve a fairly high level of complexity and are not performed routinely by most practitioners, inadvertent noncompliance with the clarified standards may present implementation problems once the standards become effective. To mitigate this risk, clarity in the standards is vital to ensuring that these attestation engagements are conducted properly.

TIC therefore encourages the Board to simplify guidance within the clarified standards to the extent possible. TIC believes the “building blocks” approach is the only practical approach to ensure that the attestation standards are comprehensive, yet readable. However, TIC has found some areas where additional clarity and simplification are needed within the subject-matter chapters, some of which involves addressing inconsistent application of the conventions underlying the structure of the standards.

TIC also understands that the clarity and recodification project does not represent a complete re-examination of the general or subject-matter attestation standards. Therefore, our comments are limited to structure and clarity issues without seeking to overhaul any of the proposed standards.

## **ISSUE FOR CONSIDERATION**

**Question for Respondents:** *The July 2013 exposure draft (Attestation Standards: Clarification and Recodification) restructures the content of AT sections 20, 50, 101, and 201. The ASB believes that the revised structure eliminates the repetition of material that is common to all attestation engagements or that is common to all examination, review, or agreed-upon procedures engagements, except for the basic report elements which are repeated in each chapter. When performing the engagements covered by this exposure draft, the practitioner must be aware of and comply with the applicable requirements and application guidance in chapters 1–4 of the proposed attestation standards. Each of the subject-matter specific chapters contains a paragraph at the beginning of the chapter*

*reminding the practitioner of the need to refer to chapter 1 and chapter 2, 3, or 4, as applicable. Commenters are specifically asked to consider whether this revised structure facilitates understanding and implementation of the standards.*

As discussed in TIC's December 13, 2013 comment letter on the *Attestation Standards: Clarification and Recodification* ED (the General Attestation ED), TIC supports the new codification of the attestation standards, including the conventions used in clarifying the standards. The new structure is an improvement over existing standards and the clarified text is generally well written and easy to follow.

Given the wide diversity of potential attestation engagements, TIC supports a "building blocks" structure for the standards that would require the practitioner to read the Common Concepts, the appropriate chapter for the level of service to be performed and any applicable subject-matter chapter. TIC believes this structure will reduce the excessive redundancy in the standards that would otherwise result. TIC also appreciated the added guidance in paragraphs 5.4, 6.7 and 7.6, which reminded practitioners that:

- they are responsible for the content of the applicable general attestation chapters, as well as the subject-matter chapter that applies to their engagements;
- some of the requirements from the general attestation chapters are cross-referenced from, or repeated in, the subject-matter chapters.

TIC noted, however, that the "building blocks" approach also presents implementation challenges. Practitioners are not used to having standards structured in this manner and may not always remember to refer back to the requirements in the Common Concepts and general chapters, as applicable.

TIC noted certain inconsistencies in the application of the "building blocks" approach that could increase these risks.

Inconsistencies were noted in cross-references to the General Attestation ED. For example, TIC noted that chapter 6 (paragraph 6.8) and chapter 7 (paragraphs 7.A3-7.A5) repeat or refer to concepts from chapter 1 (e.g., preconditions), but Chapter 5 does not do so. Perhaps this occurred because chapter 6 and chapter 7 include a separate section on preconditions for acceptance and continuance. Chapter 5 does not have this section, although certain preconditions are cited within the chapter.

Inconsistencies in cross-referencing also exist within chapters. For example:

- Paragraph 6.12 lists the procedures required for an examination or a review of pro forma information but does not refer back to the general procedures in Chapters 2 and 3 that also should be performed in every engagement. Application paragraph 6.A12 refers back to chapter 2 and chapter 3 for just one procedure (obtaining sufficient evidence in support of pro forma adjustments).
- In contrast, the lead-in sentence to paragraph 6.13 does refer back to chapter 2 and chapter 3 for management representations that are required for all

examinations and reviews of pro forma information. TIC believes practitioners will not understand why paragraphs 6.12 and 6.13 use inconsistent referencing.

As a result of the above inconsistencies in the conventions used for referencing and repetition of material from the general standards, TIC was uncertain what criteria were used to decide when a subject-matter standard would repeat excerpts from the general chapters or refer to the general standards. TIC believes this inconsistency among the subject-matter chapters could create potential confusion and may cause some to believe that some of the subject-matter standards are more complete than others. Chapters with more extensive cross-referencing could increase the risk that practitioners would lose sight of their responsibility for all of the content in the general chapters.

TIC therefore recommends that the Board develop a consistent policy for cross-referencing among subject-matter and general chapters and perform a review of all the subject-matter chapters to ensure that the policy is consistently followed. TIC also recommends adding an introductory paragraph to each final subject-matter standard to explain the policy to practitioners. In addition, the introductory paragraph should explain other important conventions, such as the repetition in the subject-matter standards of all requirements relating to the practitioner's report v. the tendency to use additive requirements in the subject-matter standards to avoid unnecessary redundancy. (This paragraph would supplement the information included in paragraphs 5.4, 6.7, and 7.6.)

These introductory paragraphs for each subject-matter standard would provide more clarity surrounding the building blocks approach and also help the Board maintain consistency in the structure of the clarified attestation standards.

The section that follows includes comments on specific paragraphs in each of the subject matter chapters. Most of the comments include requests for clarity in specific paragraphs or additional guidance. Other comments request the Board to convert certain application material to requirements or to add requirements to the final standard from the Guide, which were omitted from the ED.

## **SPECIFIC COMMENTS**

### **Chapter 5: Financial Forecasts and Projections (Extant AT 301)**

#### The importance of the AICPA Guide, *Prospective Financial Information* (the Guide)

For many years, the Guide has been the primary source of guidance for engagements involving prospective financial information. It repeats much of the authoritative attestation standards, provides extensive interpretative and implementation guidance and is the unique source for presentation guidance for forecasts and projections. TIC expects the Guide to continue as an indispensable resource for anyone preparing or reporting on prospective financial information.

However, TIC also understands that the requirements applicable to accountants' services on forecasts and projections need to reside in the attestation standards or the SSARS standards, as applicable; even though, as currently structured, the Guide is the only resource needed by practitioners when performing these engagements. With this in mind, TIC recommends that all requirements and application material from the new attestation standard be repeated in the Guide.

Although TIC understands that the Guide cannot replace the standards, TIC believes that the reference to the Guide in the Financial Forecasts and Projections Chapter is significantly understated given the importance of the Guide. Instead of saying that the Guide provides additional guidance, TIC recommends that the Board revise paragraph 5.3 to say that the Guide provides comprehensive guidance, as follows:

*The AICPA guide Prospective Financial Information (the guide) provides ~~additional~~ comprehensive guidance regarding these services, including the types and uses of prospective financial information, guidelines for the preparation and presentation of prospective financial information, and interpretive guidance for applying the material in this chapter.*

To effectively implement the updates to the clarified attestation standards and provide consistent resources between the Guide and the standards, TIC believes it will be essential to issue the revised Guide on or before the effective date of the final Financial Forecasts and Projections standard.

#### Paragraph 5.10—Projections Used to Supplement a Financial Forecast

TIC believes the underlined phrase below from paragraph 5.10 is unclear:

*...a practitioner should not permit the use of the practitioner's name in conjunction with a financial projection that the practitioner believes will be distributed to those who will not be negotiating directly with the responsible party...unless the projection is used to supplement a financial forecast for a period covered by the forecast. (Note: Paragraph 4.05 of the Guide is slightly different: ...unless the projection is used to supplement a financial forecast and is for a period covered by the forecast.)*

The meaning of “supplement” in this context is unclear. For example, does the requirement contemplate placement of the projection outside of the forecast but within the same document? TIC was also uncertain whether the periods covered by the forecast and projection are required to match exactly or just to overlap. TIC believes clarification of paragraph 5.10 is important since how the words are interpreted can affect whether the presentation would be for limited use only or for general use.

TIC believes the paragraph would be easier to understand if the word “supplement” and the phrase “for a period covered” were deleted. Instead, words should be added to clarify where the projection should be presented and whether the projection period must be the same as the forecast period or whether the projection period just needs to overlap the

forecast period. In TIC's view, the forecast period could be longer than the period covered by the projection, but the whole projection period should be covered by the forecast. TIC therefore suggests the following:

*...a practitioner should not permit the use of the practitioner's name in conjunction with a financial projection that the practitioner believes will be distributed to those who will not be negotiating directly with the responsible party...unless the projection is presented in the same document as a financial forecast and does not begin before, or extend beyond the period of, the forecast.*

#### Paragraph 5.13 and 5.A11-5.A12—Factors to be Considered in Planning the Examination Engagement

TIC disagrees with the Board's decision to classify the sub-bullets (a) through (i) in paragraph 5.A11 as application material. TIC believes each of the factors listed in the paragraph should be performed on every examination engagement. Although paragraph 15.09 of the Guide, which corresponds to paragraph 5.A11 in the ED, is unclear and does not state a definitive requirement, TIC interprets the lead-in to paragraph 15.09 as a "should consider" requirement. In addition, paragraphs 5.A11(a) and 5.A11(f), as application material, seem inconsistent with the requirement in paragraph 5.12 "to obtain a level of knowledge of the industry and the accounting principles and practices of the industry in which the entity operates or will operate."

TIC also noticed an inconsistency between the references to "accounting principles" in the first sentence of paragraph 5.A12 v. "financial reporting framework" in paragraph 5.A11(a). TIC noted the term "accounting principles" is used in these passages from paragraphs 5.09 and 5.10 of the Guide. TIC suggests the Board decide which term is preferred and use it consistently in paragraphs 5.A11 and 5.A12 and throughout the chapter, as applicable. If the Board decides to use "financial reporting framework" consistently, then a complete search should be performed of all three subject-matter chapters in this ED for other uses of the term "accounting principles."

Paragraph 5.A12 converts the "should requirements" in paragraph 5.10(a) through (d) of the Guide, to application material. TIC understands that the bullet points in paragraph 5.A12 could be application material since they are just examples which may or may not be relevant for a particular type of entity. At a minimum, however, TIC believes the following requirement from the lead-in to paragraph 5.10 of the Guide, which is now part of the lead-in to paragraph 5.A12, should remain a requirement in the final clarified standard:

*The practitioner should obtain knowledge of the key factors on which the entity's future financial results are based.*

TIC believes it is important for the practitioner to know this information in order for the practitioner to verify that the key assumptions are complete. TIC could not find this requirement elsewhere in the proposed standard. TIC therefore recommends that this

planning step be removed from the application material and inserted as an additional requirement. If the Board decides to convert paragraph 5.A11 into a requirement paragraph, it could be added as an additional bullet there.

#### Paragraph 5.A12(a)—Obtaining Knowledge of the Entity’s Business

Entities other than commercial entities prepare forecasts and projections; therefore, the wording in this paragraph should be changed from “(Principal items usually include raw materials, labor, short-term and long-term financing, and plant and equipment)” to “(For example, principal items for a commercial entity usually include raw materials,...and equipment).”

#### Paragraph 5.14(d)—Examination Procedures re: the Responsible Party’s Competence

This paragraph requires the practitioner to “consider the responsible party’s competence with respect to prospective financial statements.” TIC believes the following (or something similar) should be added to the requirement: “including the responsible party’s knowledge/familiarity with the AICPA’s *Prospective Financial Information* Guide.

#### Paragraph 5.14(f)—Examination Procedures re: the Adequacy of the Responsible Party’s Assumptions

TIC believes the requirement for the practitioner to consider the adequacy of the responsible party’s assumptions is unclear and, if intended as written, is out of place. The adequacy of assumptions would be a determination that a practitioner would make after having completed their procedures and not while determining what procedures are to be performed. TIC also noted that the adequacy of assumptions is not otherwise addressed in the proposal.

TIC believes this phrase should be changed to “consider the support for the responsible party’s assumptions.” Paragraph 5.14(f) of the ED is also inconsistent with paragraph 15.14(f) of the Guide, which refers to the adequacy of the responsible party’s underlying data. TIC believes the language in the Guide is preferred. TIC requests the Board to reexamine this paragraph for clarity.

#### Paragraphs 5.15-5.17 and 5.A7(ii), 5.A1, 5.A13-5.A17—Reasonably Objective Basis for a Forecast v. Reasonable Basis for a Projection

These paragraphs discuss the criteria and the examination procedures to determine whether a “reasonably objective basis” for a forecast or a “reasonable basis” for a projection exists for each type of engagement. Based on the application material provided, the distinction between having a reasonably objective basis for a forecast and having a reasonable basis for a projection is unclear.

For example, the terminology used in paragraphs 5.15 and 5.A14 is confusing and seems inconsistent. Paragraph 5.15 refers to “a reasonably objective basis for the forecast”

whereas 5.A14 refers to the assumptions providing “a reasonable basis for the forecast,” which is the same language used for a projection in paragraph 5.A15. Although the paragraphs may be correct as written, the various levels of assumptions involved in these presentations present difficulties in understanding the practitioner’s performance requirements.

TIC believes the concepts would be easier to understand if paragraph 5.A13 mentioned that “a reasonably objective basis for a forecast” cannot exist if the premise on which the assumptions are based is too subjective. The forecast has to be based on a realistic premise, which has to be supportable. In contrast, the basic premise for a projection does not have to be supportable, although the hypothetical assumptions should be consistent with the purpose of the presentation. TIC therefore recommends that these requirement and application paragraphs be clarified to make them easier to understand.

#### Paragraph 5.18(b)—Reference to Applicable Standards for a Review

TIC suggests modifying this paragraph to clarify that AICPA review standards apply:

*If the prospective financial statements incorporate such historical financial results and that period is significant to the presentation, review the historical information in conformity with the applicable standards for a review, as promulgated by the AICPA.*

#### Paragraphs 5.23 and 5.25(m)—Need for a Written Assertion

Paragraph 5.25(m) is the first time in Chapter 5 that the need for a written assertion on the subject matter has been mentioned. Since the practitioner will be reporting directly on the subject matter of a forecast or projection, the written assertion will not be included in the accountant’s examination report. TIC believes the need to obtain the written assertion should be mentioned earlier in this chapter. Practitioners may not recognize the representation in paragraph 5.23 as the equivalent of the written assertion. TIC recommends modifying paragraph 5.23 to clarify that this representation is the same as the written assertion required by paragraph 2.8.

#### Paragraph 5.24 and 5.28(c)—Scope Limitations and Qualified Opinions

Paragraph 5.24 states that the responsible party’s refusal to provide written representations represents a scope limitation sufficient to preclude an unqualified opinion. This language seems inconsistent with paragraph 5.28(c), which states that any scope limitation would require a disclaimer of opinion. TIC believes the standard should use the phrase “sufficient to preclude an unqualified opinion” only when there are multiple types of modified opinions that could be used by the practitioner.

Chapter 2 of the General Attestation ED does not require a disclaimer of opinion when the responsible party refuses to provide written representations. It just precludes an unqualified opinion and offers multiple types of modified opinions that could apply. However, paragraphs 5.28(c) and 5.A30 are consistent with AT 301.38(c) and .40, which

very clearly state that a qualified opinion is not appropriate when a scope limitation exists in an engagement involving prospective financial information. TIC therefore requests that the requirement in paragraph 5.24 be made consistent with the verbiage in paragraph 5.28(c).

#### Paragraphs 5.25, 5.34 and 5.A40-5.A41—Reference to the Responsible Party

TIC noted that references to the responsible party are generally used consistently (with one exception noted below) throughout the requirement and application paragraphs in the ED, but the illustrative reports always refer to management in lieu of the responsible party. Although TIC understands that this inconsistency is deliberate and is meant to illustrate in the reports that management is usually the responsible party, TIC believes the following sentence (adapted from extant AT 301.19, footnote 10) needs to be inserted as a footnote to each report illustration in the ED:

*If the responsible party is other than management, the references to management in the standard reports should be changed to refer to the party who assumes responsibility for the assumptions.*

In addition, the language in paragraph 5.25(e)(i) should refer to the responsible party rather than management to be consistent with the language in paragraph 5.34(f).

#### Paragraph 5.A26—An Examination of Prospective Financial Statements That Is Part of a Larger Engagement

One TIC member firm often is engaged to perform an examination of prospective financial statements as part of a larger engagement. Paragraph 5.A26 currently states, in part:

*When the practitioner's examination of prospective financial statements is part of a larger engagement, for example, a financial feasibility study or business acquisition study, it is appropriate to expand the report on the examination of the prospective financial statements to describe the entire engagement.*

This member noted that, for certain engagement types (e.g., New Markets Tax Credit projects), practitioners may want the flexibility to issue a standalone report on the forecast or projection. TIC therefore recommends that paragraph 5.A26 be revised as follows:

*When the practitioner's examination of prospective financial statements is part of a larger engagement, for example, a financial feasibility study or business acquisition study, ~~it is appropriate to~~ the practitioner may expand the report on the examination of the prospective financial statements to describe the entire engagement.*

#### Paragraph 5.28 and 5.A32: Quantification of the effects of a material departure from the presentation guidelines in the accountant's examination report

Issue 1: Paragraphs 5.28 and 5.A32 do not address whether the effects of a material departure from the presentation guidelines should be quantified in the accountant's examination report. Chapter 2 (Examination Engagements), paragraph 2.A13, provides general guidance for examination engagements on this matter (but not in the context of the accountant's report):

*Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.*

TIC questions whether certain engagements involving forecasts and projections might represent one of the exceptions cited in paragraph 2.A13 since certain engagements might be "designed to meet the particular information needs of specific users." TIC requests the Board to reconsider whether the quantification of the effects of material departures/misstatements should be a requirement for engagements involving prospective financial information. TIC believes, in some cases at least, it would be difficult to quantify because practitioners would have to come up with alternative assumptions to do so; however, this might not always be the case, depending on the nature of the departure that led to the qualified opinion.

Issue 2: If the Board decides that quantification should be required in some circumstances, TIC also questions whether the standards should also allow for a practicability exception for this report disclosure. If so, the exception language could be similar to that found in AU-C 705.18, which states that an auditor would include in the explanatory paragraph a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify them, then the auditor would so state in the paragraph.

#### Paragraphs 5.28-5.29—Adverse Opinions for the Failure to Disclose Significant Assumptions

The last sentence of paragraph 5.28(a) and the first sentence of paragraph 5.29 discuss the same requirement but use slightly different words. Paragraph 5.29 also discusses disclosure in the opinion as well as the type of modified report that would be required. The Board may wish to consider merging the paragraphs.

If both paragraphs are retained, then the language used should be consistent. For example, paragraph 5.29 refers to the disclosure of the summary of significant assumptions in the report, as well as significant assumptions, in general. Paragraph 5.28 refers only to significant assumptions. Paragraph 5.29 also refers to "the practitioner's judgment at the time" (which is taken from the Guide, paragraph 17.10); paragraph 5.28 does not qualify the practitioner's professional judgment to any particular time period.

#### Paragraph 5.29—Presentations That the Practitioner Should Not Examine

TIC believes the first two sentences of paragraph 5.29, which discuss the practitioner's reporting responsibility when significant assumptions are not disclosed in the presentation, are misplaced. TIC recommends merging these sentences with paragraph 5.28(b) or presenting them as a separate sub-bullet under paragraph 5.28. This proposed change would then allow all circumstances leading to a modified opinion to be listed together in one paragraph.

The last two sentences of paragraph 5.29 describe two departures from the presentation and disclosure requirements that would prohibit the practitioner from performing an examination engagement on a forecast or projection. TIC believes this guidance is incomplete and should be retained in paragraph 5.29 and expanded further,

TIC recommends that the scope of paragraph 5.29 be revised to include a summary of the circumstances that would require the practitioner to withdraw from an examination engagement. In addition to the two departures mentioned in the ED, TIC suggests adding the following additional items:

- Financial projections that the client wants to distribute for general use
- Financial forecasts for which no reasonably objective basis exists
- The responsible party's refusal to furnish written representations in certain circumstances (Paragraph 5.24 states that either a modified opinion or withdrawal would be required.)

TIC also recommends adding application guidance to paragraph 5.29 that would clarify that the practitioner may not become aware of one or more of the listed items until after the engagement has begun and is nearly complete. The guidance should refer back to paragraph 1.28 of the Common Concepts chapter which states the practitioner's responsibilities when it is discovered that the engagement has been accepted and that one or more of the preconditions for an attestation engagement is not present. It should also state that if the above matters cannot be resolved to the practitioner's satisfaction, the practitioner may need to withdraw from the engagement.

#### Paragraph 5.A36—Scope of Examination Procedures for Partial Presentations

TIC recommends re-wording the third sentence of paragraph 5.A36 for clarity. The sentence currently states:

*The practitioner may find it necessary for the scope of the examination of some partial presentations to be similar to that for the examination of a presentation of prospective financial statements.*

TIC suggests the following alternative:

*The nature and extent of the procedures performed in an examination of some partial presentations may need to be similar to the procedures performed in an examination of a full presentation of prospective financial statements.*

#### Paragraph 5.31—Limitations on the Usefulness of Partial Presentations

Paragraph 5.31 states:

*Because partial presentations are generally appropriate only for limited use, reports on partial presentations of both forecasted and projected information should include a description of any limitations on the usefulness of the presentation.*

TIC requests application guidance that would provide an example of typical limitations on the usefulness of partial presentations. TIC is uncertain what the additional limitations would be for partial v. full presentations, and is concerned that, without examples, appropriate limitations may not be cited in the examination reports on partial presentations. TIC noted that Chapter 23 (Partial Presentations) of the Guide does not include any examples or additional guidance.

#### Paragraph 5.33—Presentations for Which the Practitioner Should Not Perform Agreed-Upon Procedures

This comment is similar, in part, to TIC's comment on paragraph 5.29 for examination engagements. Paragraph 5.33 prohibits a practitioner from performing an agreed-upon procedures engagement if the summary of significant assumptions is omitted. However, this situation may only come to light after a practitioner is already engaged and may have already completed most of the agreed-upon procedures related to the engagement. TIC recommends that an application paragraph be added to paragraph 5.33 to clarify the practitioner's responsibilities, especially whether the practitioner would be required to withdraw from the engagement.

### **REQUIREMENTS IN THE PROSPECTIVE FINANCIAL INFORMATION GUIDE THAT WERE NOT INCLUDED IN CHAPTER 5 OF THE ED**

- Paragraphs 10.17-10.18 of the Guide, cited below, include requirements that have not been included in the Forecasts and Projections chapter relating to a change in engagement to a lower level of service:

*10.17 In complying with the request to change the nature of the engagement, the practitioner should evaluate the possibility that information affected by the scope restriction may be inappropriate, incomplete, or otherwise misleading. If the practitioner believes that the information so affected is misleading, he or she should try to obtain that information and consider whether he or she should issue, for example, an adverse examination report or withdraw from the engagement. The practitioner should not change the engagement to a lower level of service if he*

*or she concludes that the responsible party has no reasonably objective basis to present a forecast.*

*10.18. If the engagement is changed<sup>8</sup>, upon completion of the engagement the practitioner should issue an appropriate report. The report should not include reference to the original engagement or scope limitations that resulted in the changed engagement, or, ~~in the case of a compilation~~, any examination procedures that may have been performed.*

Footnote 8 refers to the potential need for a new written understanding (engagement letter).

TIC noted that paragraphs 1.29 and 1.A48 of the General Attestation ED discuss acceptance of changes in the terms of an engagement but are not as specific as paragraphs 10.17-10.18 of the Guide. TIC requests the addition of the cited requirements to the final standard for Chapter 5.

- Paragraph 17.22 of the Guide, cited below, include requirements that have not been included in the Forecasts and Projections chapter relating to reporting when the financial forecast includes disclosures about periods beyond the forecast period:

*While performing an examination engagement, if the practitioner has reservations about the disclosures or if he or she is unable to apply procedures to such disclosures considered necessary in the circumstances, the practitioner should discuss such matters with the responsible party and propose appropriate revision of the disclosures. If the responsible party will not agree to revisions of the disclosures, the practitioner should either modify the report on the financial forecast or withdraw from the engagement.*

Paragraph 10.19 of the Guide also addresses a practitioner's responsibilities when a financial forecast contains disclosures about periods beyond the forecast period and includes some "should consider" requirements that have not been included in the standard. TIC requests the addition of the cited requirements to the final standard for Chapter 5.

- Paragraphs 19.26, 19.28 and 19.29 of the Guide include requirements that have not been included in the Forecasts and Projections chapter relating to a change to an agreed-upon procedures engagement from another form of engagement. This guidance has not been included in Chapter 4 of the General Attestation ED. TIC requests the addition of the cited requirements to the final standard for Chapter 5.

## **Chapter 6: Reporting on Pro Forma Financial Information (Extant AT 401)**

### Paragraph 6.1—References to the General Attestation Standards

Paragraph 6.1 seems to be missing references to Chapters 2 (Examination Engagements) and 3 (Review Engagements) of the General Standards. TIC requests that these references be added to complete the paragraph.

#### Paragraph 6.A16 and 6.A20—Pooling-of-interest Business Combination Example

Paragraphs 6.A16 & 6.A20 were brought forward from AT 401.15, which dates back to a time when pooling-of-interests accounting was one of two methods of accounting for a business combination. Today, the pooling-of-interests method has been eliminated by the FASB as an allowable method. However, FASB *Accounting Standards Codification*<sup>TM</sup> (ASC) paragraph 805-50-05-5 acknowledges that certain transfers of net assets or stock between entities under common control are accounted for in a manner “similar to the pooling-of-interests method.”

TIC was uncertain whether the Board intended to retain this paragraph in the clarified standards. If so, TIC believes the paragraph should be modified to reflect the context in which the “pooling-of-interest” term is now used (ASC 805-50-05-5) and the type of pro forma information to be presented (ASC 805-50-45-5). Otherwise, paragraph 6.A16 could be misleading.

Also, if this guidance is to be retained, the Board should reexamine the placement of duplicate guidance in paragraph 6.A20. If paragraph 6.A16 is eliminated, then paragraph 6.A20 should be eliminated also.

### **Chapter 7: Compliance Attestation (Extant AT 601)**

#### Paragraph 7.A2—Introduction—Determining the Type of Engagement to be Performed

Paragraph 7.A2 states:

*An important consideration in determining the type of engagement to be performed is the expectations of users of the practitioner's report. Since the specified parties decide the procedures to be performed in an agreed-upon procedures engagement, it may be in the best interests of the practitioner and specified parties (including the engaging party) to have an agreed-upon procedures engagement rather than an examination engagement.*

TIC believes this paragraph does not provide sufficient guidance for a practitioner to distinguish the two levels of service and make an informed judgment as to which type of engagement should be performed. By simply emphasizing one distinguishing element of an agreed-upon procedures engagement (i.e., that parties are required to agree upon the procedures to be performed), the guidance downplays the significant differences in what the deliverable represents and could encourage practitioners to perform agreed-upon procedures engagements when it is not appropriate to do so. An expectation gap already exists with clients who think an agreed-upon procedures engagement is providing reasonable assurance.

TIC therefore suggests the following revisions to paragraph 7.A2:

*An important consideration in determining the type of engagement to be performed is the expectations of users of the practitioner's report. It is important to explain to users that an examination provides reasonable assurance, while an agreed-upon procedures engagement only reports on procedures and findings without providing the user reasonable assurance over the subject matter or assertion. Since However, because the specified parties decide the procedures to be performed in an agreed-upon procedures engagement, it may be in the best interests of the practitioner and specified parties (including the engaging party) to have an agreed-upon procedures engagement rather than an examination engagement when the specified parties want a detailed understanding of the exact procedures performed rather than assurance on the subject matter.*

#### Paragraph 7.29—Inconsistency in Repetition of Requirements – Representation Letters

Based on examples in other subject-matter chapters, chapter 7 is inconsistent with the convention established for representation letter requirements. Chapters 5 and 6 and the examinations engagement within chapter 7 include only incremental representations. However, the representation section for agreed-upon procedures in chapter 7 is comprehensive since it includes representations from chapter 4 plus those required in this chapter. TIC suggests the agreed-upon procedures engagement in chapter 7 follow the same convention as elsewhere in the chapter as well as the other subject-matter chapters.

#### Paragraph 7.33—Reporting on Agreed-Upon Procedures

Paragraph 7.33 provides the listing of items to include in the report on agreed-upon procedures. The lead-in to the paragraph is not clear that the list is all-inclusive of requirements in chapter 4 as well as chapter 7 and should be modified to match the language in paragraph 7.24, as follows:

~~**Chapter 4 of the attestation standards indicates that a**~~The practitioner's agreed-upon procedures report **on compliance** should contain the following:

#### **EDITORIAL COMMENTS**

In the chapter on Forecasts and Projections, AICPA v. American Institute of Certified Public Accountants is used interchangeably throughout this section (e.g., 5.25f[ii] v. 5.25f[i]). The name should be spelled out the first time with AICPA in parentheses; the acronym should be used thereafter. If the Board believes that AICPA is a recognized acronym that does not need to be spelled out, then TIC recommends deleting "American Institute of Certified Public Accountants" wherever it may appear in the ED.

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 "Scot Phillips". The signature is written in a cursive, slightly slanted style.

Scot Phillips, Chair  
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees