

Agenda Item 1



Assembly of Prospective Financial Information

Objective of Agenda Item

To discuss issues related to the proposed standard *Assembly of Prospective Financial Information* and vote to expose the proposed standard for public comment.

Background

Requirements and guidance with respect to assembly of prospective financial information currently resides in the AICPA Guide, *Prospective Financial Information*.

The ARSC Prospective Financial Information (PFI) Task Force was charged with developing a standard that would move the appropriate requirements and guidance to the SSARSs. That Task Force consists of:

Mike Fleming – ARSC member and Chair of the Task Force

Mike Brand – ARSC Chair

Chas McElroy – Former ARSC member and SSARS 21 Task Force Chair

David Johnson – TIC member

The Task Force presented a first read draft of a proposed SSARS that addressed the separate services of preparation and compilation of prospective financial information at the ARSC meeting in November 2014. At that meeting, the ARSC provided the Task Force with guidance regarding issues with respect to the draft standard and directed that a revised draft be presented to the ARSC in April 2015.

The following represents the significant changes that the Task Force made to the proposed standard in response to the ARSC's direction as well as other changes made subsequent to the November 2014 ARSC meeting.

Separation of Assembly Requirements from Compilation Requirements

In the initial draft of the proposed SSARS, the assembly of PFI (then referred to as preparation of PFI) and compilation of PFI were presented in one proposed SSARS (to be codified as one AR-C section). Subsequently, the Task Force determined that the SSARSs were easier to read, understand, and apply if presented separately.

Action Requested of the ARSC

The ARSC is asked to whether it agrees with the Task Force that it the proposed standards are easier to read, understand, and apply if the engagements are presented in separate sections.

Assembly of PFI is for Internal Use Only

Current standards require that whenever an accountant submits PFI to a client or others that he or she has assembled, or assisted in assembling, that is or might be reasonably expected to be used by another party, the accountant is to perform a compilation, examination, or apply agreed-upon procedures on such PFI.

If third-party use of the PFI is not reasonably expected, the accountant is not required to follow the standards unless engaged to perform a compilation, examination, or apply agreed-upon procedures to the PFI.

The AICPA Guide, *Prospective Financial Information* provides guidance when an accountant assembles PFI that is not expected to be used by a third party (hereinafter referred to as internal use) and the accountant is not engaged to perform a compilation, examination, or apply agreed-upon procedures to the PFI.

The proposed SSARS states that the accountant is prohibited from preparing PFI unless, at a minimum, the accountant performs an assembly engagement on such PFI.

The Task Force determined to develop a standard that would address the non-reporting internal use PFI. The Task Force determined to refer to such service as “assembly” to differentiate from the preparation of historical financial statements in accordance with section 70 of SSARS 21. In addition, accountants are familiar with the concept of assembly of PFI.

Paragraph 9 of the proposed SSARS and the associated application guidance reads as follows:

<p>9. The accountant is prohibited from accepting an assembly engagement on prospective financial information unless such prospective financial information is intended solely for internal use. (Ref: par. A7-A8)</p>	<p>A7. A potential use is considered to be internal use if the interests of the responsible party and the user regarding the prospective financial information are substantially consistent. For example, both the responsible party and the user are employees of the entity about which the prospective financial information is made. On the other hand, where the interest of the responsible party and the users are potentially inconsistent, the use would not be deemed internal use. For example, the responsible party is a nonowner manager and the user is an absentee owner. In some cases, this</p>
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determination may require exercise of considerable professional judgment.

A8. Prospective financial information that is not accompanied by an accountant's report is restricted for internal use only to allow efficiency between the accountant and the responsible party. This facilitates the ability to efficiently work with the responsible party to change assumptions and prepare multiple iterations without focusing on completing documentation and other items during the assembly process.

Application paragraph A7 attempts to put appropriate parameters around the concept of internal use. The language is from footnote 1 to paragraph 22.01 of the Guide.

Action Requested of the ARSC

The ARSC is asked to whether it agrees with the Task Force that it is appropriate to issue a standard that addresses an engagement to assemble PFI that is intended for internal use only. If the ARSC agrees with the development of such a standard, the ARSC is asked whether it agrees with how the Task Force put parameters around the concept of internal use.

Assembly of PFI That Omits Disclosures Required by the Guide

The proposed SSARS permits the assembly of PFI that omits disclosures required by the presentation guidelines in the Guide provided that the omission of disclosures is not intended to mislead users of the PFI. While this is consistent with current practice provided by the Guide, the Task Force determined to preclude the accountant from assembling PFI in final form that excludes disclosure of the summary of significant assumptions.

The proposed SSARS does allow the accountant to prepare and present draft PFI to the responsible party as long as the accountant intends to prepare and present the PFI in final form and that such draft PFI is clearly labeled as draft. The draft PFI need not include the summary of assumptions or be in conformity with the presentation guidelines in the Guide.

Action Requested of the ARSC

The ARSC is asked to consider whether it agrees that the Task Force that an accountant:

- 1) Should be permitted to assemble PFI that omits disclosures required by the presentation guidelines in the Guide provided that the omission of disclosures is not intended to mislead users of the PFI.

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2) Should be precluded from assembling PFI in final form that excludes disclosure of the summary of significant assumptions.

3) May prepare and present draft PFI to the responsible party that omits the summary of significant assumptions or is not in conformity with the presentation guidelines in the Guide as long as the accountant intends to prepare and present the PFI in final form and such draft PFI is labeled as draft.

Overall Action Item

Action Requested of the ARSC

The ARSC is asked to consider the draft of the proposed SSARS and vote to expose the proposed SSARS for public comment.

Agenda Items Presented:

Agenda item 1A Proposed standard, *Assembly of Prospective Financial Information*