



Proposed Chapter 5, “Prospective Financial Information Forecasts and Projections,” of the Clarified Attestation Standards
(Clarified AT 301, Financial Forecasts and Projections)
May 12, 2015 Draft Marked from the January 12, 2015 Draft

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<p>Introduction</p> <p>5.1 5.1 This chapter of Statements on Standards for Attestation Engagements (SSAEs or attestation standards) contains performance and reporting requirements and application guidance for a practitioners examining or performing agreed-upon procedures on prospective financial information.</p>	
<p>5.2 5.2 Prospective financial information can take the form of prospective financial statements or partial presentations.</p>	
<p>5.3 5.3 The AICPA guide <i>Prospective Financial Information</i> (the guide) provides comprehensive guidance regarding <u>prospective financial information</u>these services. Chapter 6, “Preparation Guidelines,” <u>chapter 7, “Reasonably Objective Basis,”</u> and chapter 8, “Presentation Guidelines,” <u>and chapter 9, “Illustrative Prospective Financial Statements,”</u> of the guide establish the preparation and presentation guidelines for financial forecasts and financial projections. The guide also includes information about the types and uses of prospective financial information, and interpretive guidance for applying the material in this chapter. (Ref. par. 5.14)</p>	
<p>5.4 5.9 In addition to complying with this chapter, a practitioner is required to comply with chapter 1, “Concepts Common to All Attestation Engagements,” and either chapter 2, “Examination Engagements,” for examinations of prospective financial information, or chapter 4, “Agreed-</p>	

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<p>Upon Procedures Engagements," for agreed-upon procedures engagements that address prospective financial information. In some cases, this chapter repeats or refers to requirements found in chapters 1, 2, and 4 when describing those requirements in the context of engagements that address prospective financial information. Although not all of the requirements in chapters 1, 2, and 4 are repeated or referred to in this chapter, the practitioner is responsible for complying with all of the requirements in chapters 1 and 2, or 1 and 4, as applicable.</p> <p>This paragraph was moved here from old par. 5.9</p>	
<p>5.5 5.4 Chapter 3, "Review Engagements," prohibits a practitioner from performing a review of prospective financial information.¹</p>	
<p>Effective Date</p> <p>5.6 5.5 This chapter is effective for examination and agreed-upon procedures reports on prospective financial information dated on or after May 1, 2017<u>December 15, 2016</u>.</p>	
<p>Objectives</p> <p>5.7 5.6 In an examination of prospective financial information, the objectives of the practitioner are to</p> <ul style="list-style-type: none"> a. obtain reasonable assurance about whether, in all material respects, <ul style="list-style-type: none"> i. the prospective financial information is presented in accordance<u>conformity</u> with <u>the guidelines for the presentation of prospective financial information established by the AICPA (AICPA presentation guidelines)</u> (Ref: par. 5.A1); and 	<p>Objectives</p> <p>5.A1. 5.A1 The practitioner's objective in an examination of prospective financial information is to obtain sufficient appropriate evidence to reduce attestation risk to a level that is, in the practitioner's professional judgment, acceptably low to express an opinion about whether the prospective financial information is presented in accordance<u>conformity</u> with AICPA presentation guidelines and the assumptions are suitably supported, and provide either a reasonable basis for the responsible party's forecast, or a reasonable basis for the responsible party's projection given the hypothetical assumptions. The practitioner's opinion does not address whether the achievability of the prospective results <u>can be</u></p>

¹ Paragraph 3.7 of chapter 3, "Review Engagements."

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<p>ii. the assumptions underlying the forecast are suitably supported and provide a reasonable basis for the responsible party's forecast, or the assumptions underlying the projection are suitably supported and provide a reasonable basis for the responsible party's projection given the hypothetical assumptions.(Ref: par. 5.A2)</p> <p>b. express an opinion in a written report on the matters in 5.7a</p>	<p><u>achieved</u> because events and circumstances frequently do not occur as expected and achievement of the prospective results is dependent on the actions, plans, and assumptions of the responsible party.(Ref: par. 5.65.7)</p> <p>5.A2. 5.A2 The concept of <i>suitably supported</i> is discussed in paragraphs 5.20 5.48 and 5.A17–5.A19. (Ref: par.5.65.7a[ii])</p>
<p>5.8 5.7 In an agreed-upon procedures engagement for which the subject matter is prospective financial information, the objectives of the practitioner are to</p> <p>a. apply to the prospective financial information procedures that are established by specified parties who agreed upon the procedures and are responsible for the sufficiency of the procedures for their purposes; and</p> <p>b. issue a written report that describes the procedures applied and the practitioner's findings.</p>	
<p>Definitions</p> <p>5.9 5.8 For the purposes of this chapter, the following definitions apply.</p> <p>a. Entity. Any unit, existing or to be formed, for which financial statements could be prepared in accordance with generally accepted accounting principles or special purpose frameworks. For example, an entity can be an individual, partnership,</p>	<p>Definitions</p> <p>5.A3. 5.A3 The term <i>entity</i> is used elsewhere in the attestation standards. However, the definition of the term <i>entity</i> in paragraph 5.9a is applicable only to this chapter. (Ref: par. 5.85.9a)</p>

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<p>corporation, trust, estate, association, or governmental unit.² (Ref: par. 5.A3)</p> <p>b. Financial forecast. Prospective financial statements that present, to the best of the responsible party's knowledge and belief, an entity's expected financial position, results of operations, and cash flows. A financial forecast is based on the responsible party's assumptions reflecting conditions it expects to exist and the course of action it expects to take. A financial forecast may be expressed in specific monetary amounts as a single-point estimate of forecasted results or as a range, whenwhere the responsible party selects key assumptions to form a range within which it reasonably expects, to the best of its knowledge and belief, the item or items subject to the assumptions to actually fall. If a forecast contains a range, the range is not selected in a biased or misleading manner (for example, a range in which one end is significantly less expected than the other).³ (Ref: par. 5.A55.A4)</p> <p>c. Financial projection. Prospective financial statements that present, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and cash flows. A financial projection is sometimes prepared to present one or more hypothetical courses of action for evaluation, as in response to a question such asthat begins, for instance, "What would happen if...?" A financial projection is based on the responsible party's assumptions reflecting conditions it expects would exist and the course of action it expects would be taken,</p>	<p>5.A4. 5.A4 As indicated in chapter 4 paragraphs 4.02-4.05 of the guide, prospective financial statements are for either general use or limited use. General use of prospective financial statements refers to the use of the statements by persons with whom the responsible party is not negotiating directly—for example, in an offering statement of an entity's debt or equity interests. Because recipients of prospective financial statements distributed for general use are unable to ask the responsible party directly about the presentation, the presentation most useful to them is one that portrays, to the best of the responsible party's knowledge and belief, the expected results. Thus, only a financial forecast is appropriate for general use. (Ref: par. 5.8b-c5.9b and 5.10)</p> <p>5.A5. 5.A5 Limited use of prospective financial statements refers to the use of prospective financial statements by the responsible party alone or by the responsible party and third parties with whom the responsible party is negotiating directly. Examples include use in negotiations for a bank loan, submission to a regulatory agency, and use solely within the entity. Third-party recipients of prospective financial statements intended for limited use can ask questions of the responsible party and negotiate terms directly with it. Any type of prospective financial statements that would be useful in the circumstances would normally be appropriate for limited use. Thus, the presentation may be a financial forecast or a financial projection. (Ref: par. 5.95.8b-c and 5.10)</p>

² ~~Paragraph 3.07 of C~~chapter 3, "Definitions," of the ~~AICPA~~ guide ~~Prospective Financial Information~~.

³ ~~Paragraph 3.04 of c~~Chapter 3, "~~Definitions,~~" of the guide.

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<p>given one or more hypothetical assumptions. A projection, like a forecast, may contain a range.⁴ (Ref: par. 5.A6 5.A5–5.A6 and 5.A14)</p> <p><i>d. Guide.</i> The AICPA guide <i>Prospective Financial Information</i></p> <p><i>e. Hypothetical assumption.</i> An assumption used in a financial projection or in a partial presentation of projected information to present a condition or course of action that is not necessarily expected to occur, but is consistent with the purpose of the projection.⁵</p> <p><i>f. Key factors.</i> The significant matters on which an entity’s future results are expected to depend. Such factors are basic to the entity’s operations and thus encompass matters that affect, among other things, the entity’s sales, production, service, and financing activities. Key factors serve as a foundation for prospective financial information and are the bases for the assumptions.⁶</p> <p><i>g. Partial presentation.</i> A presentation of prospective financial information that excludes one or more of the applicable items required for prospective financial statements as described set forth in chapter 8 of the guide.⁷ (Ref: par. 5.A7)</p>	<p>5.A6. 5.A6 Generally, as the number or significance of the hypothetical assumptions increases, the less likely that it is appropriate for the responsible party to present a financial projection. (Ref: par. 5-85.9c)</p> <p>5.A7. 5.A7 <u>Chapter Paragraph 23.3</u> of the guide establishes a limitation on the use of partial presentations. Paragraph 23.3 states in part, “partial presentations are not ordinarily appropriate for general use. Accordingly, a partial presentation ordinarily should not be distributed to third parties who will not be <i>negotiating directly</i> with the responsible party (for example, in an offering document for an entity’s debt or equity interests). In this context, negotiating directly</p>

⁴ ~~Paragraph 3.05 of e~~Chapter 3, “Definitions,” of the guide.

⁵ ~~Paragraph 3.08 of e~~Chapter 3, “Definitions,” of the guide

⁶ ~~Paragraph 3.11 of e~~Chapter 3, “Definitions,” of the guide.

⁷ ~~Paragraph 3.06 of e~~Chapter 3, “Definitions,” of the guide.

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<p><i>h.</i> Presentation guidelines. The criteria for the presentation and disclosure of prospective financial information. (Ref: par. Error! Reference source not found.)</p> <p><i>i.</i> Prospective financial information. Any financial information about the future. The information may be presented as complete financial statements or limited to one or more elements, items, or accounts.⁸</p> <p><i>j.</i> Prospective financial statements. Either financial forecasts or financial projections including the summaries of significant assumptions and accounting policies. Although prospective financial statements may cover a period that has partially expired, statements for periods that have completely expired are not considered to be prospective financial statements. Pro forma financial statements and partial presentations are not considered to be prospective financial statements.⁹ (Ref: par. 5.A9-5.A10)</p>	<p>is defined as a third-party user's ability to ask questions of, and negotiate the terms or structure of, a transaction directly with the responsible party." (Ref: par. 5.85.9g)</p> <p>5.A8. 5.A8 Chapter 8 of the guide contains the guidelines for the presentation and disclosure of prospective financial information. (Ref: par. 5.95.8h)</p> <p>5.A9. <u>Prospective financial statements may take the form of complete financial statements or may be summarized or condensed, as described in paragraph 8.06 of the guide. Presentations that omit one or more relevant elements described in that paragraph are defined as partial presentations. Only a full presentation (as opposed to a partial presentation) is considered prospective financial statements. A full presentation that is summarized or condensed is still considered prospective financial statements.</u> (Ref: par. 5.85.9j)</p> <p>5.A10. 5.A10 The objective of pro forma financial information is to show what the significant effects on the historical financial statements might have been had a consummated or proposed transaction or event occurred at an earlier date. Although the transaction in question might be prospective, this chapter does not apply to such presentations because they are essentially historical financial statements and do not purport to be prospective financial statements. See chapter 6, "Reporting on Pro Forma Financial Information." (Ref: par. 5.85.9j)</p>

⁸ ~~Paragraph 3.02 of C~~chapter 3, "Definitions," of the guide.

⁹ ~~Paragraph 3.03 of C~~chapter 3, "Definitions," of the guide.

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<p>5.9 In addition to complying with this chapter, a practitioner is required to comply with chapter 1, "Concepts Common to All Attestation Engagements," and either chapter 2, "Examination Engagements," for examinations of prospective financial information, or chapter 4, "Agreed-Upon Procedures Engagements," for agreed-upon procedures engagements that address prospective financial information. In some cases, this chapter repeats or refers to requirements found in chapters 1, 2, and 4 when describing those requirements in the context of engagements that address prospective financial information. Although not all of the requirements in chapters 1, 2, and 4 are repeated or referred to in this chapter, the practitioner is responsible for complying with all of the requirements in chapters 1 and 2, or 1 and 4, as applicable.</p> <p>Old par. 5.9 was moved to new par 5.4.</p>	
<p>Requirements</p>	
<p>Examinations of Prospective Financial Statements</p> <p>5.10 5.10 Because a financial projection is not appropriate for general use, a practitioner should not agree to 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. (Ref: par. 5.A4-5.A5 and 5.A11)</p> <p>5.11 5.11 <u>Unless required by law or regulation to do so, Aa</u> practitioner should not <u>accept an engagement to</u> examine</p> <ul style="list-style-type: none"> a. a financial forecast or projection that does not <u>include a summary of disclose the</u> significant assumptions: b. a financial projection that does not disclose which of the assumptions are hypothetical or does not describe the limitations on the usefulness of the projection. (Ref: par. 5.13) 	<p>5.A11. 5.A11 For example, it would be inappropriate to include a financial projection in an offering statement of an entity's debt or equity interests, unless the projection is used to supplement a financial forecast for the period covered by the forecast. In <u>that case, those circumstances</u> the <u>financial</u> projection would be presented in the same document as the financial forecast and the period covered by the projection would not begin before, or extend beyond the period covered by the forecast. (Ref: par. 5.10)</p>

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<p>5.12 5.12 If the presentation, including the summary of significant assumptions, fails to disclose <u>one or more</u> assumptions that, in the practitioner's professional judgment, at the time, are significant, the practitioner should describe the assumptions in the practitioner's report and express an adverse opinion. The practitioner should not examine a presentation that omits all disclosures of assumptions. A practitioner who has accepted an engagement in these circumstances should withdraw from the engagement, unless required by law or regulation to report on the presentation.</p> <p>5.13 If, after the practitioner has accepted an engagement to report on a financial projection, the practitioner determines that the financial projection omits (a) an identification of the hypothetical assumptions, or (b) a description of the limitations on the usefulness of the presentation, the practitioner should withdraw from the engagement, unless required by law or regulation to report on the projection. (Ref: par. 5.11)</p>	
<p>Training and Proficiency</p> <p>5.13 5.14 The practitioner should <u>understand</u>be familiar with the guidelines for the preparation and presentation of prospective financial statements contained in the guide. (Ref: par. 5.3)</p>	<p>Training and Proficiency</p>
<p>5.14 5.15A The practitioner should possess or 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, that will enable the practitioner to examine prospective financial <u>information</u>statements that <u>is</u>are in appropriate <u>form</u>for an entity operating in that industry.</p> <p>In the January 2015 draft paragraphs 5.15-5.18 were repeated. To differentiate those paragraphs in this draft, the first use of the number is marked "A" and the second "B."</p>	<p>5.A12. 5.A13 In obtaining knowledge of the entity's business, accounting policies, and the key factors upon which its future</p>

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<p>5.155.17AThe practitioner should obtain knowledge of the key factors on which the entity's prospective financial information is based. (Ref: par. 5.A135.A12)</p> <p>This paragraph was moved here from old par. 5.17A.</p>	<p>financial results appear to depend, the practitioner may focus on areas such as the following:</p> <ul style="list-style-type: none"> a. The availability and cost of resources needed to operate, for example, raw materials, labor, short-term and long-term financing, and plant and equipment.) b. The nature and condition of markets in which the entity sells its goods or services, including final consumer markets if the entity sells to intermediate markets c. Factors specific to the industry, including competitive conditions, sensitivity to economic conditions, accounting policies, specific regulatory requirements, and technology d. Patterns of past performance for the entity or comparable entities, including trends in revenue and costs, turnover of assets, uses and capacities of physical facilities, and management policies (Ref: par. 5.17A5.15) <p>Moved here from old par. 5.A13</p>
<p>Planning</p> <p>5.16. 5.16A In accordance with chapter 2, the practitioner should establish an overall engagement strategy that sets the scope, timing, and direction of the engagement and guides the development of the engagement plan. (Ref: par. 5.A125.A13)</p>	<p>Planning</p> <p>5.A13. 5.A12 Factors that may be considered by the practitioner in planning the examination of prospective financial <u>information statements</u> include the following:</p> <ul style="list-style-type: none"> a. The financial reporting framework to be used and the type of presentation b. The anticipated level of attestation risk related to the prospective financial statements

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<p>5.17A The practitioner should obtain knowledge of the key factors on which the entity's future financial results are based. (Ref: par. 5.A13) Old par. 5.17A is now new par. 5.15</p>	<p>c. Preliminary judgments about materiality levels</p> <p>d. Items within the prospective financial statements that are subject to risk of material misstatement</p> <p>e. Conditions that may require extension or modification of the practitioner's examination procedures</p> <p>f. Knowledge of the entity's business and its industry</p> <p>g. The responsible party's experience in preparing prospective financial <u>information statements</u></p> <p>h. The length of the period covered by the prospective financial <u>information statements</u></p> <p>i. The process by which the responsible party develops its prospective financial <u>information statements</u> (Ref: par. 5.16A 5.16)</p> <p>5.A14. 5.A13 In obtaining knowledge of the entity's business, accounting policies, and the key factors upon which its future financial results appear to depend, the practitioner may focus on areas such as the following:</p> <p>5.A15.</p> <p>5.A16. a. The availability and cost of resources needed to operate, for example, raw materials, labor, short-term and long-term financing, and plant and equipment.)</p> <p>5.A17. b. The nature and condition of markets in which the entity sells its goods or services, including final consumer markets if the entity sells to intermediate markets</p>

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	<p>—c. Factors specific to the industry, including competitive conditions, sensitivity to economic conditions, accounting policies, specific regulatory requirements, and technology</p> <p>—d. Patterns of past performance for the entity or comparable entities, including trends in revenue and costs, turnover of assets, uses and capacities of physical facilities, and management policies (Ref: par. 5.17)</p> <p>Moved to new par. 5.A12</p>
<p>Examination Procedures</p> <p>5.17 5.18A The examination procedures should be based on the practitioner's consideration of the following:</p> <ul style="list-style-type: none"> a. The nature and materiality of the information to the prospective financial information statements taken as a whole b. The likelihood of material misstatements c. Knowledge obtained during current and previous engagements d. The responsible party's competence with respect to prospective financial information statements e. The extent to which the prospective financial information statements isare affected by the responsible party's judgment, for example, its judgment in selecting the significant assumptions used to prepare the prospective financial information statements f. The support for the responsible party's assumptions 	<p>Examination Procedures</p>
<p>5.18 5.15B -Financial forecast- The practitioner should evaluate -whether the responsible party has a reasonably objective basis for the forecast</p>	<p>5.A18-5.A14. 5.A14 Paragraph 7.01P of the guide indicates that a reasonably objective basis for a forecast cannot exist if the premise</p>

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<p>and should consider whether sufficiently objective assumptions can be developed for each key factor. (Ref: par. 5.A14)</p>	<p>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. Accordingly, in a financial projection, the responsible party need not have a reasonably objective basis for the hypothetical assumptions. (Ref: par. 5.8b and 5.18)</p>
<p>5.195.16B The practitioner should perform those procedures the practitioner considers necessary in the circumstances to report on whether the assumptions underlying the forecast are suitably supported and provide a reasonable basis for the forecast, or whether the assumptions underlying the projection are suitably supported and provide a reasonable basis for the projection, given the hypothetical assumptions. (Ref: par. 5.A15-5.A19 5.A15-5.A16)</p>	<p>5.A19-5.A15. 5.A15-Financial Fforecast. The practitioner can form an opinion that the assumptions provide a reasonable basis for the financial forecast if the responsible party represents that the presentation reflects, to the best of its knowledge and belief, its estimate of expected financial position, results of operations, and cash flows for the prospective period, and the practitioner concludes that, based on the practitioner's examination, (1) the responsible party has explicitly identified all key factors expected to materially affect the operations of the entity during the prospective period and has developed appropriate assumptions with respect to such factors, and (2) the assumptions are suitably supported. (Ref: par. 5.19)</p> <p>5.A20-5.A16. 5.A16-Financial Pprojection. The practitioner can form an opinion that the assumptions provide a reasonable basis for the financial projection given the hypothetical assumptions if the responsible party represents that the presentation reflects, to the best of its knowledge and belief, expected financial position, results of operations, and cash flows for the prospective period given the hypothetical assumptions, and the practitioner concludes, based on the practitioner's examination, that</p> <ol style="list-style-type: none"> a. the responsible party has explicitly identified all key factors that would materially affect the operations of the entity during the prospective period if the hypothetical assumptions were to

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	<p>materialize and has developed appropriate assumptions with respect to such factors, and</p> <p>b. the other assumptions are suitably supported given the hypothetical assumptions. However, as the number and significance of the hypothetical assumptions increase, the practitioner may not be able to be satisfied about the presentation as a whole by obtaining support for the remaining assumptions. (Ref: par. 5.19)</p>
<p>5.205.17B The practitioner should evaluate the support for the <u>significant</u> assumptions <u>individually and in the aggregate</u>. <u>Assumptions are suitably supported if the preponderance of the information supports each significant assumption</u>. In an examination of a financial projection, the practitioner need not obtain support for the hypothetical assumptions, although the practitioner should evaluate whether they are consistent with the purpose of the presentation. (Ref: par. 5.A17–5.A22 5.A19)</p> <p>5.18B <u>The practitioner should conclude that assumptions are suitably supported if the preponderance of information supports each significant assumption.</u> (Ref: par. 5.A2 and 5.A17)</p>	<p>5.A21-5.A17. <u>5.A17</u> Preponderance of information, as that phrase is used in paragraph 5.18 is not meant to imply that a statistical majority of available information points to a specific assumption. Rather, A <u>a</u> preponderance of information exists for an assumption if the weight of available information tends to <u>supports</u> that assumption. Furthermore, because of the judgments involved in developing assumptions, different people may arrive at somewhat different but equally reasonable assumptions based on the same information. (Ref: par. 5.17B<u>5.20</u>)</p> <p>5.A22-5.A18. <u>5.A18</u> In evaluating support for assumptions other than hypothetical assumptions in a projection, the practitioner can conclude that they are suitably supported if the preponderance of information supports each significant assumption given the hypothetical assumptions. (Ref: par. 5.17B-5.18B<u>5.20</u>)</p> <p>5.A23-5.A19. <u>5.A19</u> Appropriate considerations for forecasts and projections include whether</p> <p>a. sufficient pertinent sources of information about the assumptions have been considered. Examples of external sources the practitioner might consider are government</p>

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	<p>publications, industry publications, economic forecasts, existing or proposed legislation, and reports of changing technology. Examples of internal sources are budgets, labor agreements, patents, royalty agreements and records, sales backlog records, debt agreements, and actions of the board of directors involving entity plans.</p> <p>b. the assumptions are consistent with the sources from which they are derived.</p> <p>c. the assumptions are consistent with each other.</p> <p>d. the historical financial information and other data used in developing the assumptions are sufficiently reliable for that purpose. Reliability can be assessed by inquiry and analytical or other procedures, some of which may have been completed in past audits or reviews of the historical financial statements.</p> <p>e. the historical financial information and other data used in developing the assumptions are comparable over the periods specified or whether the effects of any lack of comparability were considered in developing the assumptions.</p> <p>f. the logical arguments or theory, considered with the data supporting the assumptions, are reasonable. (Ref: par. 5.17B5.20)</p>
	<p>5.A24-5.A20. 5.A20 <u>When part of the period covered by the prospective financial information has expired, the practitioner's evaluation of support for the assumptions may involve consideration of the actual results achieved during that period.</u> The procedures the practitioner performs to evaluate these assumptions depend on:</p>

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<p>5.215.19 In an evaluation of whether the assumptions provide a reasonable basis for the forecast, the practitioner should evaluate the assumptions in the aggregate. If certain assumptions do not have a material effect on the presentation, they may not have to be individually evaluated. Nonetheless, the practitioner should evaluate the aggregate effect of individually insignificant assumptions in making the practitioner's overall evaluation.</p> <p>5.20 The practitioner should evaluate the assumptions for an expired portion of the period (Ref: par. 5.A20-5.A22)</p>	<ul style="list-style-type: none"> • the significance of the period, • whether financial statements have been prepared for the expired period, and • whether the forecast or projection incorporates the historical results. (Ref: par. 5.20) <p>5.A25-5.A21. 5.A21 The practitioner may <u>obtain evidence regarding the actual results by applying</u> consider performing a review of audit or review procedures to of the historical results. (Ref: par. 5.20)</p> <p>5.A26-5.A22. 5.A22 At some point the historical results <u>become</u>are such a large portion of the prospective results that the practitioner might consider it inappropriate to examine the prospective financial information. (Ref: par. 5.20)</p>
<p>5.225.24 In evaluating the preparation and presentation of the prospective financial <u>information statements</u>, the practitioner should perform procedures to obtain reasonable assurance regarding the following:</p>	<p>5.A27-5.A23. 5.A23 Under the AICPA presentation guidelines, the accounting principles used in a financial projection need not be those expected to be used in the historical financial statements for the prospective period if use of a different principle is consistent with the purpose of the presentation. (Ref: par. 5.22)</p>

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<p>a. The presentation reflects the identified assumptions.</p> <p>b. The computations made to translate the assumptions into prospective amounts are mathematically accurate.</p> <p>c. The assumptions are internally consistent.</p> <p>d. Accounting principles used in the forecast or projection are appropriate.</p> <p>e. The presentation of the prospective financial <u>information statements</u> <u>is in accordance with</u> follows the AICPA presentation guidelines applicable for such statements.</p> <p>f. The assumptions have been adequately disclosed <u>in accordance with</u> based on the AICPA presentation guidelines for prospective financial statements. (Ref: par. 5.A23)</p>	
<p>5.235.22 The practitioner should conclude whether the prospective financial <u>information statements</u>, including related disclosures, should be revised because of any of the following:</p> <p>a. Mathematical errors</p> <p>b. Unreasonable or internally inconsistent assumptions</p> <p>c. Inappropriate or incomplete presentation</p> <p>d. d. Inadequate disclosure</p> <p>(Ref: par. 5.A24)</p>	<p>5.A28-5.A24. <u>5.A24</u> The practitioner's consideration of materiality is discussed in chapter 2.¹⁰ Materiality is a concept that is judged in light of the expected range of reasonableness of the information; therefore, users would not expect prospective <u>financial</u> information (information about events that have not yet occurred) to be as precise as historical information. (Ref: par. 5.225.23)</p>

¹⁰ Paragraph 2.16 of chapter 2, "Examination Engagements."

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<p>Written Representations</p> <p>5.245-23 In an examination of a financial forecast, the practitioner should request from the responsible party, in addition to those written representations required by chapter 2, written representations that to the best of its knowledge and belief¹¹</p> <ul style="list-style-type: none"> a. the financial forecast presents the expected financial position, results of operations, and cash flows for the forecast period and that the forecast reflects the responsible party's judgment, based on present circumstances, of the expected conditions and its expected course of action; b. the assumptions on which the forecast is based are reasonable and suitably supported; and c. if the forecast contains a range, the item or items subject to the assumptions are reasonably expected to actually fall within the range and that the range was not selected in a biased or misleading manner. 	<p>Written Representations</p>
<p>5.255-24 In an examination of a financial projection, the practitioner should request from the responsible party, in addition to those written representations required by chapter 2, written representations that identify the hypothetical assumptions, identify the hypothetical assumptions that are improbable, and describe the limitations of the usefulness of the presentation.¹² In addition, the practitioner should request written representations from the responsible party that to the best of its knowledge and belief</p>	

¹¹ Paragraph 2.~~5045~~ of chapter 2.

¹² Paragraph 2.~~5045~~ of chapter 2.

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<p>a. the financial projection presents the expected financial position, results of operations, and cash flows for the projection period given the hypothetical assumptions, and that the projection reflects the responsible party's judgment, based on present circumstances, of expected conditions and its expected course of action given the occurrence of the hypothetical events;</p> <p>b. the assumptions on which the projection is based are appropriate and the assumptions other than the hypothetical assumptions are reasonable and suitably supported; and</p> <p>c. if the projection contains a range, given the hypothetical assumptions, the item or items subject to the assumption are reasonably expected to actually fall within the range and that the range was not selected in a biased or misleading manner.</p>	
<p>5.26 5.25 In an examination of prospective financial information, the written representation <u>required by chapter 2</u> regarding <u>whether the subject matter is in accordance</u> conformity with the criteria required by chapter 2 should indicate that the <u>financial</u> forecast (or <u>financial</u> projection) is prepared in accordance with <u>guidelines</u> for the presentation of a <u>financial</u> forecast (or <u>financial</u> projection) established by the American Institute of Certified Public Accountants.¹³ (Ref: par. 5.A25)</p>	<p>5.A29-5.A25. <u>5.A25</u> Chapter 2 requires the practitioner to request written representations from the responsible party, including a representation that it has disclosed to the practitioner all known matters contradicting the subject matter.¹⁴ Because no one can know the future, "known matters," in the context of prospective financial information, refers to what the responsible party expects. The required disclosure in the written representations relates to assumptions that are not consistent with the responsible party's expectations, or in the case of a projection, not consistent with the responsible party's expectations given the occurrence of the hypothetical assumptions. (Ref: par. 5-255.26)</p>
<p>5.275.26 In an examination of prospective financial information, the practitioner should request from the responsible party the written representations required by chapter 2 and paragraphs 5.23 5.24 or</p>	<p>5.A30-5.A26. <u>5.A26</u> This chapter does not permit the practitioner to perform the alternative procedures described in chapter 2 (making inquiries of the responsible party and restricting the use of</p>

¹³ Paragraph 2.5045a of chapter 2.

¹⁴ Paragraph 2.50c45b of chapter 2.

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<p>5.245.25, as applicable, even if the engaging party is not the responsible party.¹⁵ The alternative to obtaining the required written representations provided for in chapter 2 is not permitted in an engagement to examine prospective financial information.¹⁶ The responsible party's refusal to furnish the written representations required by chapter 2 and paragraphs 5.235.24 or 5.245.25, as applicable, constitutes a limitation on the scope of the engagement sufficient to require a disclaimer or may be sufficient to cause the practitioner to withdraw from the examination engagement, when withdrawal is possible under applicable laws or regulations.¹⁷ (Ref: par. 5.A26)</p>	<p>the report) in an examination of prospective financial information because the assumptions and the responsible party's expectations are critical to the forecast or projection and therefore need to be confirmed by the responsible party.¹⁸ (Ref: par. 5.265.27)</p>
<p>Reporting on an Examination of Prospective Financial Information</p> <p>5.28 5.27 The practitioner's examination report on prospective financial information should include the following elements, unless the practitioner is disclaiming an opinion, in which case items 5.27e(iii), 5.275.28h(i-iv)(iii), and 5.275.28ig should be omitted:</p> <ol style="list-style-type: none"> a. A title that includes the word independent b. An appropriate addressee as required by the circumstances of the engagement c. An identification of the prospective financial information being reported on, including the period of time to which the prospective 	<p>Reporting on an Examination of Prospective Financial Information</p> <p>5.A31-5.A27. 5.A27 The list of report elements in paragraph 5.28–5.30 constitutes all of the required report elements for an examination of prospective financial information, including the elements required by chapter 2.¹⁹ Application guidance regarding the elements of an examination report is included in chapter 2.²⁰ (Ref: par. 5.27-5.295.28–5.30)</p> <p>5.A32-5.A28. 5.A28 Example 1 in exhibit A of this chapter provides an illustration of a report on an examination of a financial forecast. (Ref: par. 5.275.28)</p>

¹⁵ Paragraph 2.5045 of chapter 2.

¹⁶ Paragraph 2.5146 of chapter 2.

¹⁷ Paragraph 2.55 of chapter 2.

¹⁸ Paragraph 2.5146 of chapter 2.

¹⁹ Paragraph 2.6257 –2.6558 of chapter 2.

²⁰ Paragraphs 2.A7273–2.A9693 of chapter 2.

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<p>financial information relates</p> <p><i>d.</i> <u>an indication that the criteria against which the financial forecast (or projection) was measured or evaluated are the guidelines for the presentation of a financial forecast (or financial projection) established by the American Institute of Certified Public Accountants.</u></p> <p><i>ed.</i> A statement that <u>identifies</u></p> <ul style="list-style-type: none"> i. <u>identifies</u> the responsible party and its responsibilities, including that the responsible party is responsible for preparing and presenting the <u>financial forecast (or financial projection) prospective financial information in accordance with based on</u> the guidelines for the presentation of <u>a financial forecast (or financial projection) prospective financial information</u> established by the American Institute of Certified Public Accountants ii. the practitioner's responsibility is to express an opinion on the prospective financial information <p><i>fe.</i> A statement that</p> <ul style="list-style-type: none"> i. the examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants ii. those standards require that the practitioner plan and perform the examination to obtain reasonable assurance about whether the <u>financial forecast (or financial projection) prospective financial information</u> is free from material misstatements based on the <u>guidelines for the presentation</u> 	<p><u>5.A33-5.A29. 5.A29</u> The requirements in paragraph <u>5.27</u> 5.28 are <u>also</u> applicable to <u>a reports</u> on <u>prospective financial statements and on a partial presentations</u>. (Ref: par. <u>5.27</u>5.28 and <u>5.34</u>5.32)</p> <p><u>5.A34-5.A30. 5.A30</u> 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, the practitioner may expand the report on the examination of the prospective financial statements to describe the entire engagement. Paragraphs 26–27 of chapter 17 of the guide address reporting when the examination engagement is part of a larger engagement. (Ref: par. <u>5.27</u>5.28)</p>

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<p><u>of a financial forecast (or financial projection) established by the American Institute of Certified Public Accountants identified criteria</u></p> <p>iii. the practitioner believes the evidence obtained is sufficient and appropriate to provide a reasonable basis for the practitioner's opinion</p> <p><i>g</i> <u>iv.</u> describes significant inherent limitations, if any, associated with the measurement or evaluation of prospective financial information against the <u>AICPA guidelines for the presentation of a financial forecast (or financial projection) established by the American Institute of Certified Public Accountants guidelines</u></p> <p><i>hf.</i> A description of the nature of an examination engagement</p> <p><i>ig.</i> The practitioner's opinion about whether the <u>financial forecast (or financial projection) prospective financial information</u> is presented, in all material respects, in <u>accordance conformity</u> with the <u>AICPA guidelines for the presentation of a financial forecast (or financial projection) prospective financial information established by the American Institute of Certified Public Accountants</u> and whether the underlying assumptions are suitably supported and provide a reasonable basis for the forecast or a reasonable basis for the projection given the hypothetical assumptions</p> <p><i>ig.</i> A caveat that the prospective results may not be achieved</p> <p><i>ki.</i> A statement that the practitioner <u>has assumes</u> no responsibility to update the report for events and circumstances occurring after the date of the report</p>	

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<p><i>lj.</i> The manual or printed signature of the practitioner's firm</p> <p><i>mk.</i> The city and state where the practitioner practices</p> <p><i>nl.</i> The date of the report (The report should be dated no earlier than the date on which the practitioner has obtained sufficient appropriate evidence on which to base the practitioner's opinion, including that the responsible party has provided a written assertion.)</p> <p>(Ref: par. 5.A27–5.A30)</p>	
<p>5.295.28 -When a practitioner examines a projection, the practitioner's opinion regarding the assumptions should be conditioned on the hypothetical assumptions; that is, the practitioner should express an opinion on whether the assumptions provide a reasonable basis for the projection <i>given the hypothetical assumptions</i>. In addition to the required elements for a report on an examination of a forecast, a report on an examination of a projection should include an identification of the hypothetical assumptions, a statement describing the special purpose for which the projection was prepared, and an alert that restricts the use of the report. The alert should</p> <ul style="list-style-type: none"> a. state that the report is intended solely for the information and use of the specified parties, b. identify the specified parties for whom use is intended, and c. state that the practitioner's report is not intended to be and should not be used by anyone other than the specified parties. 	<p>5.A35-5.A31. 5.A34 Chapter 2 notes that the specified parties may be identified by naming them, referring to a list of them, or identifying them as a class.²¹ (Ref: par. 5.285.29)</p> <p>5.A36-5.A32. 5.A32 Example 2 in Exhibit A provides an illustration of an examination report on a financial projection. (Ref: par. 5.285.29)</p>

²¹ Paragraph 2.A93 of chapter 2.

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<p>When the engagement is also performed in accordance with government auditing standards, instead of including the information in paragraph 5.285.29a-c, the alert should</p> <p>d. describe the purpose of the practitioner's report, and</p> <p>e. state that the practitioner's report is not suitable for any other purpose.</p> <p>(Ref: par. 5.A27 and 5.A31-5.A32)</p>	
<p>5.30 5.29 When the prospective financial informationstatements contains a range, the practitioner's report should also include an an <u>separate explanatory</u> paragraph that states that the responsible party has elected to portray the expected results of one or more assumptions as a range. (Ref: par. 5.A27 and 5.A33)</p>	<p>5.A37-5.A33. -5.A33 The following is an example of an an <u>explanatory separate</u> paragraph to be added to the practitioner's report when the practitioner examines prospective financial statements, in this case a forecast that contains a range.</p> <p>As described in the summary of significant assumptions, management of XYZ Company has elected to portray forecasted [<i>describe the financial statement element or elements for which the expected results of one or more assumptions fall within a range, and identify assumptions expected to fall within a range, for example, "revenue in the amounts of \$X,XXX and \$Y,YYY, which is predicated upon occupancy rates of XX percent and YY percent of available apartments"</i>] rather than as a single point estimate. Accordingly, the accompanying forecast presents forecasted financial position, results of operations, and cash flows [<i>describe one or more assumptions expected to fall within a range, for example, "at such occupancy rates."</i>] However, there is no assurance that the actual results will fall within the range of [<i>describe one or more assumptions expected to fall within a range, for example, "occupancy rates"</i>] presented. (Ref: par. 5.305.29)</p>
<p>Modifi<u>ed</u>ications to the Practitioner's Opinions</p>	<p>Modifi<u>ed</u>ications to the Practitioner's Opinions</p>

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<p>5.315-30 The practitioner should modify the opinion in the following circumstances:</p> <p>a. If, in the practitioner’s judgment, the prospective financial information materially departs from AICPA presentation guidelines, the practitioner should express a <u>qualified or</u> adverse opinion. If the prospective financial information fails to disclose assumptions that, in the practitioner’s professional judgment, are significant, or misapplies the accounting principles, the practitioner should express an adverse opinion. (Ref: par. 5.A345.A37)</p> <p>b. If the practitioner believes that one or more significant assumptions are not suitably supported or do not provide a reasonable basis for the forecast, or for the projection given the hypothetical assumptions, the practitioner should express an adverse opinion. (Ref: <u>par. 5.A37</u>)</p> <p>c. If the practitioner is unable to obtain sufficient appropriate evidence, the practitioner should disclaim an opinion and describe the scope limitation in his or her report. (Ref: par. 5.A355.A38)</p>	<p><u>5.A34. Because of the nature, sensitivity, and interrelationship of prospective financial information, a reader may find it difficult to interpret a practitioner’s opinion that is qualified because of a misapplication of accounting principles, the failure to disclose a significant assumption, the unreasonableness of the underlying assumptions, an assumption that is not suitably supported, or a scope limitation. Using language such as “except for . . .” in the practitioner’s opinion about these items may result in misunderstanding by report users. For that reason, when a misapplication of accounting principles, a failure to disclose a significant assumption, an unreasonable assumption, an assumption that is not suitably supported, or a limitation on the scope of the practitioner’s examination has led the practitioner to conclude that the practitioner cannot issue an unmodified opinion, paragraph 5.31 identifies the type of modified opinion to be issued. (Ref: par. 5.31)</u></p> <p><u>5.A35. A qualified opinion may result from the failure to disclose matters (other than the significant assumptions) required by AICPA presentation guidelines, for example, the failure to disclose significant accounting policies, which is required by paragraph 8.12 of the guide. (As indicated in paragraph 5.31a, the failure to disclose significant assumptions would result in an adverse opinion.) (Ref: par. 5.31a)</u></p> <p><u>5.A36. Chapter 2 of the attestation standards indicates that a qualified opinion is expressed as being “except for the effects (or possible effects)” of the matter to which the qualification relates.²² Chapter 2 also requires that the practitioner’s opinion be separated from any paragraphs emphasizing matters related to the subject</u></p>

²² Paragraph 2.56 of chapter 2..

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	<p><u>matter or any other reporting responsibilities.²³ Accordingly, the opinion paragraph would refer to a separate paragraph that describes the matter giving rise to the modification. The following is an illustration of the separate paragraph that describes the matter giving rise to the modification and the opinion paragraph when a financial forecast contains a departure from AICPA presentation guidelines</u></p> <p><u>The forecast does not disclose significant accounting policies. Disclosure of such policies is required by guidelines for the presentation of a financial forecast established by the American Institute of Certified Public Accountants.</u></p> <p><u>In our opinion, except for the omission of the disclosures related to significant accounting policies as discussed in the preceding paragraph, the accompanying financial forecast is presented in accordance with the guidelines for the presentation of a financial forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions are suitably supported and provide a reasonable basis for management's forecast. (Ref: par. 5.31 a)</u></p> <p>5.A38-5.A37. 5.A34 In an adverse opinion, the practitioner's opinion states that the presentation is not in <u>accordanceconformity</u> with the <u>AICPA</u> presentation guidelines and, when applicable, also states that in the practitioner's opinion, the assumptions are not suitably supported and do not provide a reasonable basis for the prospective financial statements. The following are illustrative <u>explanatory and opinion</u> paragraphs for use when the practitioner</p>

²³ Paragraph 2.60 of chapter 2.

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	<p>expresses an adverse opinion because the financial forecast contains a significant assumption that is unreasonable:</p> <p>As discussed under the caption "Sales" in the summary of significant forecast assumptions, the forecasted sales include, among other things, revenue from the Company's federal defense contracts continuing at the current level. The Company's present federal defense contracts will expire in March 20XX. No new contracts have been signed and no negotiations are under way for new federal defense contracts. Furthermore, the federal government has entered into contracts with another company to supply the items being manufactured under the Company's present contracts.</p> <p>In our opinion, the accompanying forecast is not presented in accordanceconformity with the guidelines for the presentation of a financial forecast established by the American Institute of Certified Public Accountants because management's assumptions, as discussed in the preceding paragraph, are not suitably supported and do not provide a reasonable basis for management's forecast. (Ref: par. 5.305.31b)</p> <p>5.A39-5.A38. 5.A35 In a disclaimer of opinion, the paragraph of the report that describes the matters giving rise to the report modification describes the respects in which the examination did not comply with attestation standards applicable to an examination engagement. The practitioner states that because of the respects in which the examination did not comply with such standards, the scope of the examination was not sufficient to enable the practitioner to express, and the practitioner does not express, an opinion on the presentation or the underlying assumptions. The following is an illustrative report on an examination of prospective</p>

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	<p>financial statements, in this case a financial forecast, for which a significant assumption could not be evaluated.</p> <p>We were engaged to examine the accompanying financial forecast of XYZ Company, which comprises the forecasted balance sheet as of December 31, 20XX and the related forecasted statements of income, stockholders' equity, and cash flows for the year then ending. XYZ Company's management is responsible for preparing and presenting the forecast in accordance with the [<i>identify the criteria</i>].</p> <p>As discussed under the caption, "Income From Investee" in the summary of significant forecast assumptions, the forecast includes income from an equity investee constituting 23 percent of forecasted net income, which is management's estimate of the Company's share of the investee's income to be accrued for 20XX. The investee has not prepared a <u>financial</u> forecast for the year ending December 31, 20XX, and we were therefore unable to obtain suitable support for this assumption.</p> <p>Because, as described in the preceding paragraph, we are unable to evaluate management's assumption regarding income from an equity investee and other assumptions that depend thereon, the scope of our work was not sufficient to express, and we do not express, an opinion with respect to the presentation of or the assumptions underlying the accompanying <u>financial</u> forecast.</p> <p>We have no responsibility to update this report for events and circumstances occurring after the date of this report. (Ref: par. 5.305.31c)</p>
Partial Presentations	Partial Presentations

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<p>5.32 5.34 When examining a partial presentation, the practitioner should give appropriate consideration to whether key factors affecting elements, accounts, or items that are interrelated with those in the partial presentation have been considered, including key factors that may not necessarily be obvious to the reader of a partial presentation (for example, productive capacity relative to a sales forecast), and whether all significant assumptions have been disclosed. (Ref: par. 5.A29 and 5.A36-5.A375.A39-5.A40)</p>	<p>5.A40-5.A39. 5.A36 Chapter 23 of the guide addresses partial presentations. (Ref: par. 5.345.32)</p> <p>5.A41-5.A40. 5.A37 The practitioner's procedures on a partial presentation may be affected by the nature of the information presented. Many elements of prospective financial statements are interrelated. 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. For example, the scope of a practitioner's procedures when the practitioner examines forecasted results of operations (a partial presentation) would likely be similar to that of procedures used for the examination of prospective financial statements since the practitioner would most likely need to consider the interrelationships of all accounts in the examination of results of operations. (Ref: par. 5.345.32)</p>
<p>5.335.32 Because partial presentations are generally appropriate only for limited use, reports on partial presentations of both forecasted and projected <u>financial</u> information should include a description of any limitations on the usefulness of the presentation.</p>	
<p>Other Information</p> <p>5.34 Chapter 2 contains requirements regarding the practitioner's responsibility when the practitioner permits the practitioner's examination report to be included in a document that contains the subject matter or assertion and other information.²⁴ In addition to the requirements in chapter 2, the practitioner whose report on prospective financial statements is included in a document containing historical</p>	

²⁴ ~~Paragraph 2.52 of chapter 2.~~

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<p>financial statements should not agree to the use of the practitioner's name in the document unless one of the following applies:²⁵</p> <ul style="list-style-type: none"> a. The practitioner has compiled, reviewed, or audited the historical financial statements and the practitioner's report accompanies them. b. The historical financial statements are accompanied by an indication by the responsible party or the practitioner that the practitioner has not performed a compilation, review, or audit of the historical financial statements and that the practitioner assumes no responsibility for them. c. Another practitioner has compiled, reviewed, or audited the historical financial statements and that other practitioner's report is included in the document. 	
<p>Agreed-Upon Procedures Engagements</p> <p>5.355.34 5.34 In addition to determining that the preconditions for accepting or continuing an agreed-upon procedures engagement enumerated in chapters 1 and 4 are met, the practitioner should not perform an agreed-upon procedures engagement on a financial forecast or projection unless the prospective financial information includes a summary of significant assumptions.</p>	
<p>Reporting on Agreed-Upon Procedures Engagements</p> <p>5.365.35 5.35 The practitioner's report on the application of agreed-upon procedures to a financial forecast or projection should include the following:</p>	<p>Reporting on Agreed-Upon Procedures Engagements</p> <p>5.A42.5.A41. 5.A38 The list of report elements in paragraph 5.355.35 constitutes all of the required report elements for a report on the application of agreed-upon procedures to a financial forecast</p>

²⁵~~Paragraph 2.52 of chapter 2.~~

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<ul style="list-style-type: none"> a. A title that includes the word independent b. An appropriate addressee as required by the circumstances of the engagement c. An identification of the prospective financial information and the nature of an agreed-upon procedures engagement d. An identification of the specified parties e. A statement that the procedures performed were those agreed to by the specified parties identified in the report f. Identification of the responsible party g. A statement that the prospective financial information is the responsibility of the responsible party h. A statement that <ul style="list-style-type: none"> i. the sufficiency of the procedures is solely the responsibility of those parties specified in the report ii. the practitioner makes no representation regarding the sufficiency of the procedures either for the purpose for which the report has been requested or for any other purpose i. A list of the procedures performed (or reference thereto) and related findings (The practitioner should not provide a conclusion.) 	<p>or projection, including the elements required by chapter 4.²⁶ Application guidance regarding the elements of an agreed-upon procedures report is included in chapter 4.²⁷ (Ref: par. 5.355.35)</p>

²⁶ Paragraph 4.3334 of chapter 4, "Agreed-Upon Procedures Engagements."

²⁷ Paragraphs 4.A3634–4.A429 of chapter 4.

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<p>j. When applicable, a description of any agreed-upon materiality limits</p> <p>k. All of the following statements:</p> <p>i. The agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.</p> <p>ii. The practitioner was not engaged to and did not conduct an examination or review of the subject matter, the objective of which would be the expression of an opinion or a conclusion, respectively on the subject matter.</p> <p>iii. Accordingly, the practitioner does not express For all three matters on which an examination report provides an opinion, the practitioner does not express such an opinion or conclusion: on(The three matters are</p> <p>(1) whether the presentation of the <u>financial forecast (or financial projection) prospective financial statements</u> is in accordance<u>conformity</u> with AICPA presentation guidelines for the presentation of a financial forecast (or financial projection) established by the American Institute of Certified Public Accountantsand</p> <p>(2) whether the underlying assumptions are suitably supported and</p> <p>(3) <u>whether the underlying assumptions</u> provide a reasonable basis for the forecast, or a reasonable basis for the projection given the hypothetical assumptions).</p>	<p>5-A43-5.A42. 5-A39 Exhibit B provides an illustration of an agreed-upon procedures report. (Ref: par. 5-355.35)</p>

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<p>iv. Had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported.</p> <p><i>l.</i> When applicable, reservations or restrictions concerning procedures or findings</p> <p><i>m.</i> When applicable, a description of the nature of the assistance provided by a practitioner's specialist</p> <p><i>n.</i> A caveat that the prospective results may not be achieved</p> <p><i>o.</i> A statement that the practitioner has assumes no responsibility to update the report for events and circumstances occurring after the date of the report</p> <p><i>p.</i> An alert in a separate paragraph that restricts the use of the practitioner's report that. The report should</p> <ul style="list-style-type: none"> <i>i.</i> states that the report is intended solely for the information and use of the specified parties, <i>ii.</i> identifiesy the specified parties for whom use is intended, and <i>iii.</i> states that the practitioner's report is not intended to be and should not be used by anyone other than the specified parties. <p>When the engagement is also performed in accordance with government auditing standards, instead of including the information in paragraph 5.355.35p, the alert should</p>	<p><i>i.</i></p>

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<ul style="list-style-type: none"> i. describe the purpose of the practitioner's report, and ii. state that the practitioner's report is not suitable for any other purpose. q. The manual or printed signature of the practitioner's firm r. The city and state where the practitioner practices s. The date of the report (The report should be dated no earlier than the date on which the practitioner completed the procedures and determined the findings.) <p>(Ref: par. 5.A38-5.A395.A41-5.A42)</p>	

5.A44-5.A43. 5.A40 Exhibit A: Illustrative Examination Reports

Example 1: Report on an Examination of a Financial Forecast

The following is an illustrative report for an examination of a financial forecast that does not contain a range.

Independent Accountant's Report

[Appropriate Addressee]

We have examined the accompanying financial forecast of XYZ Company, which comprises [*identify the statements, for example, the forecasted balance sheet as of December 31, 20XX and the related forecasted statements of income, stockholders' equity, and cash flows*]

for the year then ending]. XYZ Company's management²⁸ is responsible for preparing and presenting the forecast in accordance with the guidelines for the presentation of a financial forecast established by the American Institute of Certified Public Accountants.²⁹ Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the forecast is free from material misstatement based on the guidelines for the presentation of a financial forecast established by the American Institute of Certified Public Accountants~~identified criteria~~. An examination involves performing procedures to obtain evidence about the forecast. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the forecast, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the forecast referred to above is presented, in all material respects, in accordance~~conformity~~ with the guidelines for the presentation of a financial forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions are suitably supported and provide a reasonable basis for management's forecast.

There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[*Practitioner's signature*]
[*Practitioner's city and state*]
[*Date of practitioner's report*]

Example 2: Report on an Examination of a Financial Projection

The following is an illustrative report for an examination of a financial projection that does not contain a range.

²⁸ If the responsible party is other than management, the references to management in this illustrative report would be changed to refer to the party who has~~assumes~~ responsibility for the assumptions.

²⁹ When the presentation is summarized as illustrated in Exhibit 9-2 of the AICPA guide, *Prospective Financial Information*, this sentence might read, "We have examined the accompanying summarized financial forecast of XYZ Company as of December 31, 20XX, and for the year then ending..."

Independent Accountant's Report

[Appropriate Addressee]

We have examined the accompanying financial projection of XYZ Company, which comprises [*identify the statements, for example, "the projected balance sheet as of December 31, 20XX, and the related projected statements of income, stockholders' equity, and cash flows for the year then ending"*].³⁰ XYZ Company's management³¹ is responsible for preparing and presenting the projection based on [*identify the hypothetical assumption, for example, "the granting of the requested loan as described in the summary of significant assumptions"*] in ~~accordance~~conformity with ~~the~~ guidelines for ~~preparing and the~~ presentation of a ~~financial~~ projection established by the American Institute of Certified Public Accountants and. The projection was prepared for [*identify the special purpose, for example, "the purpose of negotiating a loan to expand XYZ Company's plant"*]. Our responsibility is to express an opinion on the projection based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the projection is free from material misstatement based on the ~~guidelines for the presentation of a financial~~ forecast ~~established by the American Institute of Certified Public Accountants~~identified criteria. An examination involves performing procedures to obtain evidence about the projection. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the projection, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, [*describe the hypothetical assumption, for example, "assuming the granting of the requested loan for the purpose of expanding XYZ Company's plant as described in the summary of significant assumptions"*] the projection referred to above is presented, in all material respects, in ~~accordance~~conformity with ~~the~~ guidelines for ~~the~~ presentation of a ~~financial~~ projection established by the American Institute of Certified Public Accountants, and the underlying assumptions are suitably supported and provide a reasonable basis for management's projection ~~given the hypothetical assumptions~~.

³⁰ When the presentation is summarized as illustrated in Exhibit 9-2 of the AICPA guide, *Prospective Financial Information*, this sentence might read, "We have examined the accompanying summarized financial projection of XYZ Company as of December 31, 20XX, and for the year then ending...."

³¹ If the responsible party is other than management, the references to management in this illustrative report would be changed to refer to the party who ~~has~~assumes responsibility for the assumptions

Even if [*describe hypothetical assumption, for example, "the loan is granted and the plant is expanded,"*], there will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying projection and this report are intended solely for the information and use of [*identify specified parties, for example, "XYZ Company and DEF National Bank"*] and are not intended to be and should not be used by anyone other than these specified parties.

[*Practitioner's signature*]

[*Practitioner's city and state*]

[*Date of practitioner's report*]

~~5-A45-5.A44.~~ 5-A44

Exhibit B: Illustrative Agreed-Upon Procedures Report

The following is an illustrative report for an engagement to apply agreed-upon procedures to a financial forecast~~ed~~the prospective financial statements.

Independent Accountant's Report on Applying Agreed-Upon Procedures

[*Appropriate Addressees*]

We have performed ~~applied~~ the procedures enumerated below, which were agreed to by the Boards of Directors of XYZ Corporation and ABC Company, on~~te~~ [*identify the statements, for example, "the forecasted balance sheet as of December 31, 20XX and the related forecasted statements of income, stockholders' equity, and cash flows of DEF Company, a subsidiary of ABC Company, for the year then ending."*]. DEF Company's management³² is responsible for preparing and presenting the forecast. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

[*Include paragraphs to enumerate procedures and findings.*]

³² If the responsible party is other than management, the references to management in this illustrative reports would be changed to refer to the party who has~~assumes~~ responsibility for the assumptions

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, about the accompanying prospective financial ~~forecast statements~~. Accordingly, we do not express an opinion or conclusion about whether the prospective financial ~~forecast statements~~ ~~is~~are presented in ~~accordance~~conformity with ~~AICPA presentation the~~ guidelines ~~for the presentation of a financial forecast established by the American institute of Certified Public Accountants~~ or ~~on~~ whether the underlying assumptions are suitably supported or provide a reasonable basis for ~~management's forecast~~the presentation. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

This report is intended solely for the information and use of the Boards of Directors of ABC Company and XYZ Corporation and is not intended to be and should not be used by anyone other than these specified parties.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]