

## Agenda Item 1



# Compilation of Prospective Financial Information, Compilation of Pro Forma Financial Information and Omnibus - 2016

## Objective of Agenda Item

To discuss issues related to the following proposed standards and to vote to expose the proposed standards for public comment:

- *Compilation of Prospective Financial Information,*
- *Compilation of Pro Forma Financial Information, and*
- *Omnibus Statement on Standards for Accounting and Review Services – 2016.*

## Background

Proposed SSARSs *Compilation of Prospective Financial Information and Omnibus Statement on Standards for Accounting and Review Services – 2016*

Requirements and guidance with respect to compilations, examinations, and agreed-upon procedures engagements with respect to prospective financial information reside in AT section 301, *Financial Forecasts and Projections*. The Auditing Standards Board is currently clarifying the attestation literature and made a determination to remove the guidance regarding compilations of prospective financial information currently in AT section 301 from the proposed clarified attestation standards.

The ARSC Prospective Financial Information (PFI) Task Force was charged with developing a standard that would move the appropriate requirements and guidance with respect to compilations of PFI 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 – AICPA Technical Issues Committee 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. The preparation of PFI and compilation of PFI were presented in one proposed SSARS (to be codified as one AR-C section) in that initial draft. Subsequently, the Task Force determined that the SSARSs were easier to read, understand,

Compilation of PFI and Omnibus  
Discussion Memorandum  
ARSC Meeting, October 27-29, 2015

and apply if those services are presented separately. At the November 2014 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 ARSC presented that draft to the ARSC in April 2015 along with proposed changes to AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*.

At the April 2015 meeting, the ARSC directed that:

- AR-C section 70, *Preparation of Financial Statements* be revised so that it could be applied, adapted as necessary, to the preparation of PFI.
- The Task Force meet with the Chair of the Auditing Standards Board's Attestation Standards Task Force to determine whether there were any unintended consequences or omitted matters associated with the proposed compilation of PFI standard. That meeting took place in June 2015.

Proposed SSARS, *Compilation of Pro Forma Financial Information*

The ARSC voted to expose this proposed SSARS for public exposure at its meeting in November 2013. Subsequently, staff made certain revisions so that the format of the proposed SSARS is consistent with the format of the proposed SSARS, *Compilation of Prospective Financial Information*. Because of the revisions, the ARSC is asked to consider whether to withdraw the 2013 vote to expose for public comment and instead vote to expose the revised draft for public comment.

**Issues for Discussion with the ARSC**

**Proposed SSARS *Compilation of Prospective Financial Information***

**Requirement to Withdraw if Written Representations are not Received in a Compilation of Prospective Financial Information**

Paragraph 18 of the proposed SSARS, *Compilation of Prospective Financial Information* includes a requirement that the accountant request written representations from the responsible party for all compilations of prospective financial information.

Paragraph 24 of that same proposed standard states that if the responsible party does not provide the required written representations, the accountant should withdraw from the engagement. A similar requirement is contained in the extant literature (paragraphs .69.5.i and j of AT section 301).

A question has been raised as to whether the requirement in paragraph 24 is appropriate considering that a compilation is a non-assurance engagement. There is no objection to a requirement that the accountant request the written representations.

The Task Force strongly believes that the accountant should be required to withdraw if the requested representations are not received. While the Task Force recognizes that the compilation is not an assurance engagement, the responsible party's assumptions (in lieu of books and records) provide the basis for the prospective financial statements. Only the

Compilation of PFI and Omnibus  
Discussion Memorandum  
ARSC Meeting, October 27-29, 2015

responsible party is in a position to know whether the assumptions are appropriate and represent the manner in which management intends to operate the entity's business. The Task Force believes that the written representations are the only way to have management accept responsibility for the assumptions that underlie the prospective financial statements.

**Action Requested of the ARSC**

The ARSC is asked to consider whether a requirement should be retained in the proposed SSARS, *Compilation of Prospective Financial Information* that the accountant withdraw from the engagement if management does not provide the required written representations.

**Proposed SSARS, *Compilation of Pro Forma Financial Information***

**Action Requested of the ARSC**

The ARSC is asked to consider whether to withdraw the November 2013 vote to expose the proposed SSARS for public comment.

**Overall Action Item**

**Action Requested of the ARSC**

The ARSC is asked to consider the drafts of the proposed SSARSs *Compilation of Prospective Financial Information*, *Compilation of Pro Forma Financial Information*; and *Omnibus Statement on Standards for Accounting and Review Services – 2016* and vote to expose the proposed SSARSs for public comment (the ARSC will only vote to expose the proposed SSARS *Compilation of Pro Forma Financial Information*) if it votes to withdraw its November 2013 vote to expose the proposed standard for public comment).

Compilation of PFI and Omnibus  
Discussion Memorandum  
ARSC Meeting, October 27-29, 2015

**Agenda Items Presented:**

- Agenda item 1A      Proposed explanatory memorandum (wrap material for exposure draft)
- Agenda item 1B      Proposed standard, *Compilation of Prospective Financial Information* – redline to show changes from the draft presented to the ARSC at the April 2015 meeting
- Agenda item 1C      Proposed standard, *Compilation of Prospective Financial Information* – clean
- Agenda item 1D      Proposed standard, *Compilation of Pro Forma Financial Information* – redline to show changes from the November 2013 draft that the ARSC voted to expose for public comment
- Agenda item 1E      Proposed standard, *Omnibus Statement on Standards for Accounting and Review Services – 2016* – redline to show changes from the draft presented to the ARSC at the April 2015 meeting
- Agenda item 1F      Proposed standard, *Omnibus Statement on Standards for Accounting and Review Services – 2016* – clean

Mr. Fleming will refer to Agenda Items 1B and 1F when discussing the proposed standards *Compilation of Prospective Financial Information* and *Omnibus Statement on Standards for Accounting and Review Services – 2016*, respectively.

Mr. Glynn will refer to agenda item 1D when discussing the proposed standard *Compilation of Pro Forma Financial Information*.