



Agenda Item 1F

Proposed Chapter 5, “Prospective Financial Information,” of the Clarified Attestation Standards (Clarified AT 301, *Financial Forecasts and Projections*)

November 12, 2015 Draft Marked from the October 13, 2015 Draft

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p>Introduction</p> <p>5.1. This chapter of Statements on Standards for Attestation Engagements (attestation standards) contains performance and reporting requirements and application guidance for a practitioner examining or performing agreed-upon procedures on prospective financial information.</p>	
<p>5.2. Prospective financial information can take the form of prospective financial statements or partial presentations.</p>	
<p>5.3. The AICPA guide <i>Prospective Financial Information</i> (guide) provides comprehensive guidance regarding prospective financial information. Chapter 6, “Preparation Guidelines,” chapter 7, “Reasonably Objective Basis,” chapter 8, “Presentation Guidelines,” and chapter 9, “Illustrative Prospective Financial Statements,” 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.</p>	
<p>5.4. 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>5.5. Chapter 3, "Review Engagements," prohibits a practitioner from performing a review of prospective financial information.¹</p>	
<p>Effective Date</p> <p>5.6. This chapter is effective for <u>practitioners'</u> examination and agreed-upon procedures reports on prospective financial information dated on or after May 1, 2017.</p>	
<p>Objectives of an Examination Engagement</p> <p>5.7. In conducting 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 with the guidelines for the presentation of prospective financial information established by the AICPA (AICPA presentation guidelines) (Ref: par. 5.A1); and 	<p>Objectives of an Examination Engagement</p> <p>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 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 prospective results can be achieved because events and circumstances frequently do not occur as expected and</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 <u>practitioner's</u> written report on the matters in paragraph 5.7a.</p>	<p>achievement of the prospective results is dependent on the actions, plans, and assumptions of the responsible party. (Ref: par. 5.7a[i])</p> <p>5.A2. The concept of <i>suitably supported</i> is discussed in paragraphs 5.7a(ii), 5.23, and 5.A18–5.A20. (Ref: par. 5.7a[ii])</p>
<p>Objectives of an Agreed-Upon Procedures Engagement</p> <p>5.8. In conducting 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 <u>practitioner's</u> written report that describes the procedures applied and the practitioner's findings.</p>	
<p>Definitions</p> <p>5.9. For purposes of this chapter, the following terms have the meanings attributed as follows:</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.</p>	<p>Definitions</p> <p>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. 5.9a)</p>

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<p>For example, an entity can be an individual, partnership, 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, when 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.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 as, “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, given one or more</p>	<p>5.A4. As indicated in chapter 4, “Types of Prospective Financial Information,” 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. 5.9b and 5.10)</p> <p>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.</p>

² Chapter 3, “Definitions,” of the AICPA guide *Prospective Financial Information* (guide).

³ Chapter 3, “Definitions,” of the guide.

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<p>hypothetical assumptions. A projection, like a forecast, may contain a range.⁴ (Ref: par. 5.A5–5.A6 and 5.A15)</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 in chapter 8 of the guide.⁷ (Ref: par. 5.A7)</p>	<p>Thus, the presentation may be a financial forecast or a financial projection. (Ref: par. 5.9c and 5.10)</p> <p>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. 5.9c)</p> <p>5.A7. Chapter 23, "Partial Presentations of Prospective Financial Information," of the guide establishes a limitation on the use of partial presentations.¹⁰ Chapter 23 of the guide states, in part, "partial presentations are not ordinarily appropriate for general use."</p>

⁴ Chapter 3, "Definitions," of the guide.

⁵ Chapter 3, "Definitions," of the guide

⁶ Chapter 3, "Definitions," of the guide.

⁷ Chapter 3, "Definitions," of the guide.

¹⁰~~Chapter 23, "Partial Presentations of Prospective Financial Information," 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. 5.A8)</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>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 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. 5.9g)</p> <p>5.A8. Chapter 8 of the guide contains the guidelines for the presentation and disclosure of prospective financial information. (Ref: par. 5.9h)</p> <p>5.A9. Prospective financial statements may take the form of complete financial statements or may be summarized or condensed, as described in chapter 8 of the guide. Presentations that exclude one or more relevant elements described in that chapter are defined as partial presentations. For the purposes of this chapter, the term forecast used alone means forecasted information, which can be either a full presentation (a financial forecast) or a partial presentation. The term projection can refer to either a financial projection or a partial presentation of projected information. (Ref: par. 5.9j)</p> <p>5.A10. The objective of pro forma financial information is to show what the significant effects on the historical financial statements</p>

⁸ Chapter 3, "Definitions," of the guide.

⁹ Chapter 3, "Definitions," of the guide.

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	<p>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. 5.9j)</p>
<p>Requirements</p>	
<p>Examination Engagements</p>	<p>Examination Engagements</p>
<p>Preconditions for an Examination Engagement</p> <p>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. Unless required by law or regulation to do so, a practitioner should not accept an engagement to examine</p> <ul style="list-style-type: none"> a. a forecast or projection unless the responsible party has agreed to disclose the significant assumptions b. a financial projection unless the responsible party has agreed to identify in the presentation which of the assumptions are hypothetical and to describe the limitations on the usefulness of the projection. c. a partial presentation that does not describe the limitations on the usefulness of the presentation, unless the responsible party has agreed to describe the limitations in the partial presentation. 	<p>Preconditions for an Examination Engagement</p> <p>5.A11. Paragraph 5.10 indicates that it is not appropriate for a practitioner to 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. An example of such a situation is the inclusion of 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 (that is, the financial 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. A practitioner should not examine a forecast or projection that discloses none of the significant assumptions. If after accepting the engagement the practitioner determines that the forecast or projection discloses none of the significant assumptions, the practitioner should withdraw from the engagement, unless required by law or regulation to report on the financial forecast or projection <u>in which case the practitioner should express an adverse opinion in the practitioner's report.</u></p> <p>5.13. If after accepting the engagement, the practitioner determines that the forecast or projection fails to disclose one or more of the significant assumptions, the practitioner should describe the assumption(s) in the practitioner's report and express an adverse opinion.</p> <p>5.14. If after accepting the engagement the practitioner determines that a projection fails to identify which of the assumptions are hypothetical or to describe the limitations on the usefulness of the projection, the practitioner should withdraw from the engagement, unless required by law or regulation to report on the projection <u>in which case the practitioner should express an adverse opinion in the practitioner's report.</u></p>	
<p>Training and Proficiency</p> <p>5.15. The practitioner should understand the guidelines for the preparation and presentation of prospective financial statements contained in the guide.</p>	<p>Training and Proficiency</p>
<p>5.16. 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 information that is appropriate for an entity operating in that industry.</p>	<p>5.A12. 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>

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<p>5.17. The practitioner should obtain knowledge of the key factors on which the entity's prospective financial information is based. (Ref: par. 5.A12)</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. 5.17)
<p>Requesting a Written Assertion</p> <p>5.18. <u>The practitioner should request from the responsible party a written assertion that the prospective financial information is presented in accordance with AICPA presentation guidelines. If the responsible party refuses to provide a written assertion the practitioner should withdraw from the engagement when withdrawal is possible under applicable laws and regulations. (Ref: par. 5.A13)</u></p>	<p>Requesting a Written Assertion</p> <p>5.A13. <u>The guidance in paragraph 5.18 applies whether or not the responsible party is the engaging party. (Ref: par. 5.18)</u></p>
<p>Planning</p> <p>5.19. 5.18 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.¹¹ (Ref: par. 5.A14)</p>	<p>Planning</p> <p>5.A14. Factors that may be considered by the practitioner in planning the examination of prospective financial information include the following:</p>

¹¹ Paragraph 2.1140 of chapter 2, "Examination Engagements."

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	<ul style="list-style-type: none"> a. The financial reporting framework to be used and the type of presentation b. Preliminary judgments about materiality levels c. Items within the prospective financial information that are subject to risk of material misstatement d. Conditions that may require extension or modification of the practitioner's examination procedures e. Knowledge of the entity's business and its industry f. The responsible party's experience in preparing prospective financial information g. The length of the period covered by the prospective financial information h. The process by which the responsible party develops its prospective financial information <p>(Ref: par. 5.19)</p>
<p>Examination Procedures 5.20. 5.19 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 taken as a whole b. The likelihood of material misstatements c. Knowledge obtained during current and previous engagements 	<p>Examination Procedures</p>

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<p>d. The responsible party's competence with respect to prospective financial information</p> <p>e. The extent to which the prospective financial information is affected by the responsible party's judgment, for example, its judgment in selecting the significant assumptions used to prepare the prospective financial information</p> <p>f. The support for the responsible party's assumptions</p>	
<p>5.21. 5.20The practitioner should evaluate whether the responsible party has a reasonably objective basis for the forecast and should consider whether sufficiently objective assumptions can be developed for each key factor. (Ref: par. 5.A15)</p>	<p>5.A15. Paragraph 7.01P <u>Chapter 7</u> of the guide indicates that a reasonably objective basis for a forecast cannot exist if the premise on which the assumptions are based is too subjective. A 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 projection, the responsible party need not have a reasonably objective basis for the hypothetical assumptions. (Ref: par. 5.21)</p>
<p>5.22. 5.21The 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.A16–5.A17)</p>	<p>5.A16. Forecast. 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, (a) 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 (b) the assumptions are suitably supported. (Ref: par. 5.22)</p> <p>5.A17. Projection. The practitioner can form an opinion that the assumptions provide a reasonable basis for the financial projection</p>

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	<p>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> <ul 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 materialize and has developed appropriate assumptions with respect to such factors, and 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. 5.22)
<p>5.23. 5.22The practitioner should evaluate the support for the significant assumptions individually and in the aggregate. Assumptions are suitably supported if the preponderance of the information supports each significant assumption. In an examination of a 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.A18–5.A20)</p>	<p>5.A18. A preponderance of information exists for an assumption if the weight of available information supports 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. 5.23)</p> <p>5.A19. 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</p>

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	<p>information supports each significant assumption given the hypothetical assumptions. (Ref: par. 5.23)</p> <p>5.A20. Appropriate considerations for forecasts and projections include whether</p> <ul style="list-style-type: none"> a. sufficient pertinent sources of information about the assumptions have been considered. Examples of external sources the practitioner might consider are government 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. b. the assumptions are consistent with the sources from which they are derived. c. the assumptions are consistent with each other. 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. 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.

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	<p>f. the logical arguments or theory, considered with the data supporting the assumptions, are reasonable. (Ref: par. 5.23)</p>
<p>5.24. 5.23 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>5.25. 5.24 The practitioner should evaluate the assumptions related to an expired portion of the prospective period. (Ref: par. 5.A21–5.A23)</p>	<p>5.A21. The procedures the practitioner performs to evaluate these assumptions depends on:</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. 5.25) <p>5.A22. The practitioner may obtain evidence regarding the actual results by applying audit or review procedures to the historical results. (Ref: par. 5.25)</p> <p>5.A23. At some point the historical results become such a large portion of the prospective results that the practitioner might consider it inappropriate to examine the prospective financial information. (Ref: par. 5.25)</p>

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<p>5.26. 5.25 In evaluating the preparation and presentation of the prospective financial information, the practitioner should perform procedures to obtain reasonable assurance about whether the:</p> <ul style="list-style-type: none"> a. presentation reflects the identified assumptions, b. computations made to translate the assumptions into prospective amounts are mathematically accurate, c. assumptions are internally consistent, d. accounting principles used in the forecast or projection are appropriate, e. prospective financial information is presented in accordance with the AICPA presentation guidelines, and f. assumptions have been adequately disclosed in accordance with the AICPA presentation guidelines. (Ref: par. 5.A24) 	<p>5.A24. 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. 5.26)</p>
<p>5.27. 5.26 The practitioner should conclude whether the prospective financial information, including related disclosures, should be revised because of any of the following:</p> <ul style="list-style-type: none"> a. Mathematical errors b. Unreasonable or internally inconsistent assumptions c. Inappropriate or incomplete presentation d. Inadequate disclosure 	<p>5.A25. The practitioner's consideration of materiality is discussed in chapter 2.¹² Materiality is a concept that is judged in light of the expected range of reasonableness of the information; therefore, users would not expect prospective financial information (information about events that have not yet occurred) to be as precise as historical information. (Ref: par. 5.27)</p>

¹² Paragraph 2.16 of chapter 2, "Examination Engagements."

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(Ref: par. 5.A25)	
<p>Written Representations in an Examination Engagement</p> <p>5.28.5.27In an examination of a forecast, in addition to the written representations from the responsible party required by chapter 2, the practitioner should request from the responsible party written representations that¹³</p> <ul style="list-style-type: none"> a. the 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 fall within the range and that the range was not selected in a biased or misleading manner. 	<p>Written Representations in an Examination Engagement</p>
<p>5.29. 5.28In an examination of a projection, in addition to the written representations from the responsible party required by chapter 2, the practitioner should request from the responsible party written representations that¹⁴</p> <ul style="list-style-type: none"> a. identify the hypothetical assumptions, 	

¹³ Paragraph 2.50 of chapter 2.

¹⁴ Paragraph 2.50 of chapter 2.

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<p>b. identify <u>which of</u> the hypothetical assumptions, <u>if any, that</u> are improbable,</p> <p>c. describe the limitations of the usefulness of the presentation.</p> <p>d. the 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>e. the assumptions other than the hypothetical assumptions are reasonable, given the hypothetical assumptions and are suitably supported; and</p> <p>f. 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>5.30. 5-29 In an examination of prospective financial information, the written representation required by chapter 2 regarding whether the subject matter is in accordance with <u>or based on</u> the criteria should indicate that the forecast (or projection) is presented in accordance with <u>or based on</u> the guidelines for the presentation of a financial forecast (or financial projection) established by the American Institute of Certified Public Accountants.¹⁵ (Ref: par. 5.A26)</p>	<p>5.A26. 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.¹⁶ 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</p>

¹⁵ Paragraph 2.50a of chapter 2.

¹⁶ Paragraph 2.50c of chapter 2.

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<p>5.31. 5.30 In an examination of prospective financial information, the practitioner should request from the responsible party the written representations required by chapter 2 and paragraphs 5.28 or 5.29, as applicable, even if the engaging party is not the responsible party.¹⁷ The alternative to obtaining the required written representations provided for in chapter 2 is not permitted in an engagement to examine prospective financial information.¹⁸ The responsible party's refusal to furnish the written representations required by chapter 2 and paragraphs 5.28 or 5.29, as applicable, constitutes a limitation on the scope of the engagement sufficient to preclude an unmodified opinion and may be sufficient to cause the practitioner to withdraw from the examination engagement, when withdrawal is possible under applicable laws or regulations.¹⁹ (Ref: par. 5.A26)</p>	<p>responsible party's expectations given the occurrence of the hypothetical assumptions. (Ref: par. 5.30)</p> <p>5.A26—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 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 in writing by the responsible party.²⁰ (Ref: par. 5.315.30)</p>
<p><u>Examination Report Content of Practitioner's Examination Report</u> 5.32. 5.34 The practitioner's examination report on prospective financial information should include the following, unless the practitioner is disclaiming an opinion, in which case items, 5.325-34f, and 5.325-34g should be omitted:</p> <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 	<p><u>Examination Report Content of Practitioner's Examination Report</u> 5.A27. 5.A27 The list of report elements in paragraph 5.325-34–5.345-33 constitutes all of the required report elements for an practitioner's report <u>on an</u> examination of prospective financial information, including the elements required by chapter 2.²¹ Application guidance regarding the elements of a <u>practitioner's</u></p>

¹⁷ Paragraph 2.50 of chapter 2.

¹⁸ Paragraph 2.51 of chapter 2.

¹⁹ Paragraph ~~2.50, 2.55,~~ and 2.A~~6463~~ of chapter 2

²⁰ ~~Paragraph 2.51 of chapter 2~~

²¹ Paragraph 2.~~6362~~ –2.~~6665~~ of chapter 2.

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<p>c. An identification of the prospective financial information being reported on, including the period of time to which the prospective financial information relates</p> <p>d. An indication that the criteria against which the prospective financial information was measured or evaluated are the guidelines for the presentation of a forecast (or projection) established by the American Institute of Certified Public Accountants.</p> <p>e. A statement that identifies</p> <p style="padding-left: 20px;">i. the responsible party and its responsibility for preparing and presenting the prospective financial information in accordance with the guidelines for the presentation of a forecast (or projection) established by the American Institute of Certified Public Accountants</p> <p style="padding-left: 20px;">ii. the practitioner's responsibility is to express an opinion on the prospective financial information, <u>based on the practitioner's examination</u></p> <p>f. A statement that</p> <p style="padding-left: 20px;">i. the examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants</p> <p style="padding-left: 20px;">ii. those standards require that the practitioner plan and perform</p>	<p>examination report is included in chapter 2.²² (Ref: par. 5.325-34–5.345-33)</p> <p>5.A28. 5.A28 Example 1 in exhibit A of this chapter provides an illustration of a <u>practitioner's</u> report on an examination of a financial forecast. (Ref: par. 5.325-34)</p> <p>5.A29. 5.A29 The requirements in paragraph 5.325-34 are applicable to <u>practitioners'</u> reports on prospective financial statements and on partial presentations. (Ref: par. 5.325-34 and 5.365-35)</p> <p>5.A30. 5.A30 When the practitioner's examination of prospective financial information is part of a larger engagement, for example, a financial feasibility study or business acquisition study, the practitioner may expand the <u>practitioner's</u> report on the examination of the prospective financial information to describe the entire engagement. Paragraphs 26–27 of Cchapter 17, "<u>The Practitioner's Examination Report.</u>" of the guide addresses reporting when the examination engagement is part of a larger engagement. (Ref: par. 5.325-34)</p>

²² Paragraphs ~~2.A7874~~–~~2.A10095~~ of chapter 2.

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<p>the examination to obtain reasonable assurance about whether the forecast (or projection) is presented in accordance with the guidelines for the presentation of a forecast (or projection) established by the American Institute of Certified Public Accountants, in all material respects</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>g. A description of the nature of an examination engagement</p> <p>h. The practitioner's opinion about whether the forecast (or projection) is presented, in all material respects, in accordance with the guidelines for the presentation of a forecast (or projection) established by the American Institute of Certified Public Accountants, 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. A statement indicating that the prospective results may not be achieved and describing other significant inherent limitations, if any</p> <p>j. A statement that the practitioner has no responsibility to update the report for events and circumstances occurring after the date of the report</p> <p>k. The manual or printed signature of the practitioner's firm</p> <p>l. The city and state where the practitioner practices</p>	

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<p><i>m.</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 evidence that</p> <ul style="list-style-type: none"> <i>i.</i> the attestation documentation has been reviewed, <i>ii.</i> the prospective financial information has been prepared, and <i>iii.</i> the responsible party has provided a written assertion.) <p>(Ref: par. 5.A27–5.A30)</p>	
<p>5.33.5.32 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 <u>practitioner's</u> report on an examination of a forecast, a <u>practitioner's</u> report on an examination of a projection should include</p> <ul style="list-style-type: none"> <i>a.</i> an identification of the hypothetical assumptions, <i>b.</i> a statement describing the special purpose for which the projection was prepared, and <i>c.</i> an alert, in a separate paragraph, that restricts the use of the practitioner's report; the alert should <ul style="list-style-type: none"> <i>i.</i> state that the <u>practitioner's</u> report is intended solely for the 	<p>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.²³ (Ref: par. <u>5.335-32</u>)</p> <p>5.A32. 5.A32 Example 2 in Exhibit A provides an illustration of a <u>practitioner's</u> examination report on a financial projection. (Ref: par. <u>5.335-32</u>)</p>

²³ Paragraph 2.A~~9792~~ of chapter 2

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<p>information and use of the specified parties,</p> <ul style="list-style-type: none"> ii. identify the specified parties for whom use is intended, and iii. state that the practitioner's report is not intended to be and should not be used by anyone other than the specified parties. <p>d. When the engagement is also performed in accordance with <i>Government Auditing Standards</i>, the alert that restricts the use of the <u>practitioner's</u> report should include the following information rather than the information required by paragraph 5.335-32a-c:</p> <ul style="list-style-type: none"> i. a description of the purpose of the practitioner's report, and ii. a statement that the practitioner's report is not suitable for any other purpose. <p>(Ref: par. 5.A27 and 5.A31–5.A32 <u>and 5.A27</u>)</p>	
<p>5.34.5.33 When the prospective financial information contains a range, the practitioner's report should also include a separate 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.A33. 5.A33–The following is an example of a separate 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</p>

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	<p>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. 5.345-33)</p>
<p>Modified Opinions</p> <p>5.35.5.34 The following are circumstances that require the practitioner to modify the opinion and the type of modified opinion the practitioner should express<u>issue</u> in each circumstance:</p> <ol style="list-style-type: none"> If, in the practitioner's judgment, the prospective financial information materially departs from AICPA presentation guidelines, the practitioner should express a qualified or adverse opinion. (Ref: par. 5.A35–5.A36) 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.A37) 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: par. 5.A37) If the practitioner is unable to obtain sufficient appropriate evidence, the practitioner should disclaim an opinion and 	<p>Modified Opinions</p> <p>5.A34. 5.A34 Because of the nature, sensitivity, and interrelationship of prospective financial information, a report user <u>of a practitioner's report</u> 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 <u>of the practitioner's report</u>. 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 express<u>issue</u> an unmodified opinion, paragraph 5.355-34 identifies the type of modified opinion to be expressed<u>issued</u>. (Ref: par. 5.355-34)</p> <p>5.A35. 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 <u>chapter 8 paragraph 8-12</u> of the guide. (As indicated in paragraph</p>

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<p>describe the scope limitation in the <u>practitioner's</u> report. (Ref: par. 5.A38)</p> <p><u>(Ref: par 5.A34–5.A38)</u></p>	<p><u>5.355-34b</u>, the failure to disclose significant assumptions would result in an adverse opinion.) (Ref: par. <u>5.355-34a</u>)</p> <p>5.A36. 5.A36 Chapter 2 indicates that a qualified opinion is expressed as being “except for the effects of the matter to which the qualification relates.”²⁴ Chapter 2 also requires that the practitioner’s opinion be separated from any paragraphs emphasizing matters related to the subject matter or any other reporting responsibilities.²⁵ Accordingly, the opinion paragraph would refer to a separate paragraph that describes the matter giving rise to the qualification. The following is an illustration of the separate paragraph that describes the matter giving rise to the qualification and the opinion paragraph when a financial forecast contains a departure from AICPA presentation guidelines</p> <p style="padding-left: 40px;">The forecast does not disclose significant accounting policies. Disclosure of such policies is required by guidelines for the presentation of a <u>financial</u> forecast established by the American Institute of Certified Public Accountants.</p> <p style="padding-left: 40px;">In our opinion, except for the omission of the disclosures related to significant accounting policies as discussed in the preceding paragraph, the accompanying <u>financial</u> forecast is presented in accordance with the guidelines for the presentation of a <u>financial</u> 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. <u>5.355-34a</u>)</p>

²⁴ Paragraph 2.~~7170~~ of chapter 2.

²⁵ Paragraph 2.~~8068~~ of chapter 2.

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	<p>5.A37. 5.A37 In an adverse opinion, the practitioner’s opinion states that the presentation is not in accordance with the AICPA 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 paragraphs for use when the practitioner 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 accordance 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. 5.355-34<u>b-c</u>)</p>
	<p>5.A38. 5.A38 In a disclaimer of opinion, the paragraph of the practitioner’s report that describes the matters giving rise to the</p>

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	<p>opinion 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 of or the assumptions underlying the forecast or projection. The following is an illustrative <u>practitioner's</u> report on an examination of prospective 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 <u>financial</u> 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 guidelines for the presentation of a <u>financial</u> forecast established by the American Institute of Certified Public Accountants.</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</p>

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	<p>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 financial forecast.</p> <p>We have no responsibility to update this report for events and circumstances occurring after the date of this report. (Ref: par. 5.355-34d)</p>
<p>Partial Presentations</p> <p>5.36. 5.35 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 user of a partial presentation (for example, production capacity relative to a sales forecast), and whether all significant assumptions have been disclosed. (Ref: par. 5.A29 and 5.A39–5.A40 and 5.A29)</p>	<p>Partial Presentations</p> <p>5.A39. 5.A39 Chapter 23 of the guide addresses partial presentations. (Ref: par. 5.365-35)</p> <p>5.A40. 5.A40 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. 5.365-35)</p>
<p>5.37.5.36 Because partial presentations are generally appropriate only for limited use, practitioners’ reports on partial presentations of both forecasted and projected financial information should include a description of any limitations on the usefulness of the presentation.</p>	

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<p>Preconditions for an Agreed-Upon Procedures Engagement</p> <p>5.38. 5.37In 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 forecast or projection unless the prospective financial information includes a summary of significant assumptions.</p>	
<p><u>Content of Practitioner's Agreed-Upon Procedures Report</u> Content</p> <p>5.39. 5.38The practitioner's report on the application of agreed-upon procedures to a forecast or projection should include the following:</p> <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. A statement that identifies the responsible party and its 	<p><u>Content of Practitioner's Agreed-Upon Procedures Report</u> Content</p> <p>5.A41. 5.A41The list of report elements in paragraph 5.395-38 constitutes all of the required report elements for a <u>practitioner's</u> report on the application of agreed-upon procedures to a <u>financial</u> forecast or projection, including the elements required by chapter 4.²⁶ Application guidance regarding the elements of a <u>practitioner's</u> agreed-upon procedures report is included in chapter 4.²⁷ (Ref: par. <u>5.395-38</u>)</p> <p>5.A42. 5.A42 Exhibit B provides an illustration of a <u>practitioner's</u> agreed-upon procedures report. (Ref: par. <u>5.395-38</u>)</p>

²⁶ Paragraph 4.~~3534~~ of chapter 4, "Agreed-Upon Procedures Engagements."

²⁷ Paragraphs 4.A~~3536~~–4.A~~4143~~ of chapter 4.

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<p>responsibility for preparing and presenting the forecast (or projection) in accordance with the guidelines for the presentation of a forecast (or projection) established by the American Institute of Certified Public Accountants</p> <p><i>g.</i> A statement that</p> <ul style="list-style-type: none"> <i>i.</i> the sufficiency of the procedures is solely the responsibility of those parties specified in the report <i>ii.</i> 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 <p><i>h.</i> A list of the procedures performed (or reference thereto) and related findings (The practitioner should not provide a conclusion.)</p> <p><i>i.</i> When applicable, a description of any agreed-upon materiality limits</p> <p><i>j.</i> A statement that:</p> <ul style="list-style-type: none"> <i>i.</i> the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. <i>ii.</i> the practitioner was not engaged to and did not conduct an examination or review of the forecast (or projection), the objective of which would be the expression of an opinion or a conclusion, respectively on the forecast (or projection). 	

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<p>iii. The practitioner does not express an opinion or conclusion on</p> <ul style="list-style-type: none"> (1) whether the presentation of the forecast (or projection) is in accordance with guidelines for the presentation of a forecast (or projection) established by the American Institute of Certified Public Accountants (2) whether the underlying assumptions are suitably supported and (3) whether the underlying assumptions provide a reasonable basis for the forecast, or a reasonable basis for the projection given the hypothetical assumptions. <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>k. An alert, in a separate paragraph, that restricts the use of the practitioner's report; the alert should</p> <ul style="list-style-type: none"> i. state that the report is intended solely for the information and use of the specified parties, ii. identify the specified parties for whom use is intended, and iii. state that the practitioner's report is not intended to be and should not be used by anyone other than the specified parties. <p>l. When the engagement is also performed in accordance with <i>Government Auditing Standards</i>, the alert that restricts the use of</p>	

the report should include the following information rather than the information required by paragraph 5.39k:

- i. A description of the purpose of the practitioner's report, and
- ii. A statement indicating that the practitioner's report is not suitable for any other purpose.

m. When applicable, reservations or restrictions concerning procedures or findings

n. When applicable, a description of the nature of the assistance provided by a practitioner's specialist

o. A caveat that the prospective results may not be achieved

p. A statement that the practitioner has no responsibility to update the report for events and circumstances occurring after the date of the report

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, including that

- ii. the attestation documentation has been reviewed,
- iii. the prospective financial information has been prepared, and
- iv. the responsible party has provided a written assertion, unless the responsible party is unwilling to provide an assertion.)

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(Ref: par. 5.A41–5.A42)	

5.A43. ~~5.A43~~ Exhibit A: Illustrative Practitioner's Examination and Agreed-Upon Procedures Reports Related to Prospective Financial Information

Example 1: Practitioner's Examination Report on ~~an Examination of~~ a Financial Forecast

The following is an illustrative practitioner's 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*], based on the guidelines for the presentation of a financial forecast established by the American Institute of Certified Public Accountants. 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 presented in accordance with the guidelines for the presentation of a financial forecast established by the American Institute of Certified Public Accountants, in all material respects. An examination involves performing procedures to obtain evidence about the

²⁸ If the responsible party is other than management, the references to management in this illustrative practitioner's report would be changed to refer to the party who has 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..."

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 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: **Practitioner's Examination** Report on ~~an Examination of~~ a Financial Projection

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

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*] based on the guidelines for the presentation of a **financial** projection established by the American Institute of Certified Public Accountants.³⁰ XYZ Company's management³¹ is responsible for preparing and presenting the projection based on

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 **practitioner's** report would be changed to refer to the party who has responsibility for the assumptions.

[*identify the hypothetical assumption, for example, the granting of the requested loan as described in the summary of significant assumptions*] in accordance with the guidelines for the presentation of a **financial** projection established by the American Institute of Certified Public Accountants. 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 **presented** in accordance with the guidelines for the presentation of a **financial** projection established by the American Institute of Certified Public Accountants, in all material respects. 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(s), 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 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 assumption(s).

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*]

Example 3: Practitioner's Agreed-Upon Procedures Report ~~on an Agreed-Upon Procedures Engagement~~ Related to a Financial Forecast

The following is an illustrative practitioner's report for an engagement to apply agreed-upon procedures to a financial forecast.

Independent Accountant's Agreed-Upon Procedures Report

[Appropriate Addressee]

We have performed the procedures enumerated below, which were agreed to by identify the specified parties, for example, the bBoards of dDirectors of XYZ Corporation and ABC Company, on 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 in accordance with the guidelines for the presentation of a financial forecast established by the American Institute of Certified Public Accountants. 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 enumerated below either for the purpose for which this report has been requested or for any other purpose.

[Include paragraphs to enumerate procedures and findings.]

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 financial forecast. Accordingly, we do not express an opinion or conclusion about whether the 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 or whether the underlying assumptions are suitably supported or provide a reasonable basis for management's forecast. 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 identify the specified parties, for example, the bBoards of dDirectors of ABC Company and XYZ Corporation, and is not intended to be and should not be used by anyone other than these specified parties.

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 responsibility for the assumptions

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