

Agenda Item 1A



EXPOSURE DRAFT

PROPOSED STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

COMPILATION OF PROSPECTIVE FINANCIAL INFORMATION

COMPILATION OF PRO FORMA FINANCIAL INFORMATION

*OMNIBUS STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW
SERVICES - 2016*

(To Amend Statement on Standards for Accounting and Review Services No. 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification, AR-C sections 60, General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services; 70, Preparation of Financial Statements, 80, Compilation Engagements, and 90, Review of Financial Statements and to supersede AR section 120, Compilation of Pro Forma Financial Information [AICPA, Professional Standards].)

November XX, 2015

Comments are requested by February 15, 2016

Prepared by the AICPA Accounting and Review Services Committee for comment from persons interested in compilation and reporting issues.

Comments should be addressed to Mike Glynn at mglynn@aicpa.org



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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background on the following proposed Statements on Standards for Accounting and Review Services (SSARSs):

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

The proposed SSARS *Compilation of Pro Forma Financial Information* would supersede AR section 120, *Compilation of Pro Forma Financial Information*.

The proposed SSARS *Omnibus Statement on Standards for Accounting and Review Services – 2016* would amend AR-C sections 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*; 70, *Preparation of Financial Statements*, 80, *Compilation Engagements*, and 90, *Review of Financial Statements*.

The accompanying proposed standards apply the Accounting and Review Services Committee's (ARSC's) clarity drafting conventions.

The proposed SSARSs would result in the following sections in the codified SSARSs:

- AR-C section 110, *Compilation of Prospective Financial Information*
- AR-C section 120, *Compilation of Pro Forma Financial Information*

Background

Preparation and Compilation of Prospective Financial Information

The issuance of the proposed SSARS, *Compilation of Prospective Financial Information* will result in the requirements and guidance for compilations of prospective financial information moving from Statements on Standards for Attestation Standards (the "attestation standards") to the SSARSs. The issuance of the proposed SSARS, *Omnibus Statement on Standards for Accounting and Review Services – 2016* will expand the applicability of AR-C section 70 so that it applies to the preparation of prospective financial information – which will replace the interpretative guidance in the AICPA Guide, *Prospective Financial Information* regarding assembly of prospective financial information.

Currently, requirements and guidance with respect to compilations of prospective financial information resides in AT section 301, *Financial Forecasts and Projections* (AICPA, *Professional Standards*). The Auditing Standards Board determined, as part of its project to clarify the attestation standards, to remove the guidance regarding compilations of prospective financial information from the attestation standards.

Extant standards prohibit the review of prospective financial information.

The proposed SSARS, *Compilation of Prospective Financial Information* provides the requirements and guidance with respect to compilations of prospective financial information. Requirements and guidance with respect to examinations and engagements to apply agreed-upon

procedures to prospective financial information will be retained in the clarified attestation standards. The Auditing Standards Board is currently developing those clarified standards.

The AICPA Guide, *Prospective Financial Information* includes additional authoritative guidance on assembly of prospective financial information. The ARSC is proposing revisions to AR-C sections 60, *General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services* and 70, *Preparation of Financial Statements* so that the preparation of prospective financial information would be performed in accordance with SSARSs. A revised version of the AICPA Guide, *Prospective Financial Information* will provide authoritative interpretative guidance with respect to preparation and compilation of prospective financial information.

Proposed SSARS, *Compilation of Pro Forma Financial Information*

The proposed SSARS represents the clarity redraft of AR section 120, *Compilation of Pro Forma Financial Information*.

Proposed SSARS, *Omnibus - 2016*

The proposed SSARS represents revisions to AR-C sections 60, *General Principles for Performing Engagements in Accordance with Statements on Standards for Accounting and Review Services*, 70, *Preparation of Financial Statements*, 80, *Compilation Engagements*, and 90, *Review of Financial Statements*.

AR-C section 60 provides general principles for engagements performed in accordance with SSARSs and codified into AR-C sections. The proposed SSARS:

- revises AR-C section 60 so that it applies to SSARSs engagements performed on subject matter other than historical financial statements.
- revises the definition of *interpretative publications* in paragraph .06 of AR-C section 60 to reflect the revised title of the AICPA Guide providing authoritative guidance on SSARSs engagements.
- revises the definition of *other preparation, compilation, and review publications* so that the definition is not specific as to the title of the AICPA's annual Alert addressing engagements performed in accordance with SSARSs.

AR-C section 70 applies when an accountant in public practice is engaged to prepare financial statements. The proposed SSARS:

- revises paragraphs .01 and .A1 to delete the preparation of prospective financial information as an example of other financial information to which section 70 may be

applied and instead states that the section should be applied, adapted as necessary in the circumstances, to the preparation of prospective financial information.

- revises paragraph .08 so that it is clear that AR-C section 60 applies to engagements to prepare prospective financial information, adapted as necessary.
- revises paragraph .14 to state that when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that “no assurance is provided” on the financial statements that, in addition to
 - Issuing a disclaimer that makes clear that no assurance is provided on the financial statements or
 - Performing a compilation engagement

The accountant may perform a review or an audit of the financial statements information. An application paragraph is also added that states that if the subject matter of the engagement is prospective financial information, the accountant may perform an examination or an agreed-upon procedures engagement with respect to the prospective financial information. The revised paragraph also makes clear that, when withdrawal is possible under applicable law or regulation, the accountant may withdraw from the engagement.

- deletes paragraph .22 regarding documentation of the justification for a departure from a relevant presumptively mandatory requirement. The documentation requirement is not included in AR-C sections 80 or 90 and would be included in the requirement, as stated in paragraph .21, for the accountant to prepare documentation in connection with each preparation engagement in sufficient detail to provide a clear understanding of the work performed.

AR-C section 80 applies when an accountant is engaged to perform a compilation engagement. The proposed SSARS:

- revises the title of AR-C section 80 so that it runs to the compilation of financial statements.
- revises paragraph .01 so that AR-C section 80 applies when the accountant is engaged to perform a compilation of financial statements.
- revises paragraph .A1 to delete the preparation of pro forma and prospective financial information as examples of other financial information that may be the subject of a compilation engagement.

The revisions are necessary as the proposed SSARS, *Compilation of Prospective Financial Information* would cover the compilation of prospective financial information and the proposed SSARS, *Compilation of Pro Forma Financial Information* would cover the compilation of pro forma financial information.

- revises paragraph .A9 to make clear that an oral understanding of the terms of the engagement is insufficient.

AR-C section 90 addresses the accountant's responsibilities when engaged to review financial statements. The proposed SSARS:

- revises paragraph .A17 to make clear that an oral understanding of the terms of the engagement is insufficient.
- revises paragraph .39g to make clear that the accountant's signature on the accountant's review report can be digital.

Format of the Exposure Draft

This exposure draft is presented in columnar format in which requirements and related application guidance are presented side-by-side instead of in the more customary sequential presentation. This approach has been efficient for the ARSC in developing and reviewing the proposed SSARSs, and it is used here for the benefit of respondents. The resulting SSARSs will be issued in the traditional format.

Effective Date

The effective date of the proposed SSARSs has not been determined, but it is anticipated that the effective date will be no earlier than:

- the preparation of subject matter on May 1, 2017;
- compilation reports on subject matter dated on or after May 1, 2017; or
- review reports on financial statements dated on or after May 1, 2017.

It is the ARSC's goal to align the effective date of the proposed SSARSs with the effective date of the proposed clarified Statements on Standards for Attestation Engagements – which are currently being developed by the Auditing Standards Board.

Changes From Existing Standards

When the Accountant Would be Required to Perform a Compilation Engagement on Prospective Financial Information

Paragraph .02 of AT section 301, *Financial Forecasts and Projections* states that whenever a practitioner (a) submits, to his or her client or others, prospective financial information that he or she has assembled, or assisted in assembling, that are or reasonably might be expected to be used by another (third) party, the practitioner should perform a compilation, examination, or apply agreed-upon procedures on such prospective financial information. If third-party use of the prospective financial information is not reasonably expected, the accountant is not required to follow the standards unless engaged to perform a compilation, examination, or apply agreed-upon procedures to the prospective financial information.

Assembly is defined as the manual or computer processing of mathematical or other clerical functions related to the presentation of prospective financial information. Assembly does not refer to the mere reproduction and collation of such statements or to the responsible party's use of the accountant's computer processing hardware or software.

The proposed SSARS *Compilation of Prospective Financial Information* would revise the applicability of the compilation service so, consistent with the applicability of a compilation of historical financial statements, the accountant would perform the compilation engagement when engaged to do so.

When the Accountant Is Engaged to Prepare Prospective Financial Information but Not Engaged to Perform a Compilation, Examination, or Apply Agreed-Upon Procedures on Such Prospective Financial Information

The AICPA Guide, *Prospective Financial Information* provides guidance when an accountant assembles prospective financial information that is not expected to be used by a third party and the accountant is not engaged to perform a compilation, examination, or apply agreed-upon procedures on the prospective financial information.

The proposed revisions to AR-C section 60 would revise the section so it applies to SSARSS engagements performed on subject matter other than historical financial statements (for example, prospective financial information). Further, the proposed revisions to AR-C section 70 include a requirement that the section be applied, adapted as necessary in the circumstances, to the preparation of prospective financial information.

The result will be that the accountant can prepare prospective financial information without a report and such prospective financial information can be distributed to third parties. The accountant would be required to ensure that a statement is included on each page of the financial statements indicating, at a minimum, that "no assurance is provided" on the prospective financial information. If the accountant is unable to include a statement on each page of the financial statements, the accountant would be required to

- a. issue a disclaimer that makes clear that no assurance is provided on the financial statements,

- b. perform an examination, compilation, or an agreed-upon procedures engagement with respect to the prospective financial information; or
- c. when withdrawal is possible under applicable law or regulation, withdraw from the engagement.

Compilation of Pro Forma Financial Information

ARSC believes that there would be no significant changes to extant AR section 120 if the proposed SSARS, *Compilation of Pro Forma Financial Information* is issued as a final standard.

Guide for Respondents

Comments are most helpful when they refer to specific paragraphs; include the reasons for the comments, and, when appropriate, make specific recommendations for any suggested changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for ARSC to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after February 15, 2016, for a period of one year. Responses should be sent to Mike Glynn at mglynn@aicpa.org and received by February 15, 2016.

Comment Period

The comment period for this exposure draft ends on February 15, 2016.

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