

## Agenda Item 1



### Proposed SSARS *Omnibus* – 2016

#### Objective of Agenda Item

To discuss proposed SSARSs *Omnibus* – 2016 and consider voting to issue as final SSARSs.

#### Background

On December 8, 2015 the ARSC issued an exposure draft which contained three proposed SSARSs – *Compilation of Prospective Financial Information*, *Compilation of Pro Forma Financial Information*, and *Omnibus* – 2016.

Comments on the proposed SSARSs were due by May 6, 2016. Eight comment letters were received. The ARSC discussed issues raised in the comment letters and considered proposed revisions to the draft SSARSs as a result of the comments received at its meeting in May 2016. The ARSC directed that the draft standard be revised so that the requirements and guidance for compilations of prospective financial information hangs off of AR-C section 80. Any necessary incremental requirements and guidance would be included in either a separate AR-C section, as a revision to AR-C section 80, or in the proposed Prospective Financial Information Guide. The ARSC directed that a draft of any proposed revisions to the SSARSs be presented to the ARSC at its meeting in August 2016.

#### Issues For Discussion With the ARSC

##### References to “financial statements” in SSARSs

At its meeting in May 2016, the ARSC concluded that references to subject matter other than historical financial information (such as prospective financial information, and pro forma financial information) could be addressed in an interpretation stating that, if the subject matter of the engagement is other than historical financial information, references in SSARSs to historical financial information should be taken as a reference to such other financial information.

The proposed SSARS includes application paragraphs .A1 to AR-C sections 60, 70, and 80 that states that references to *financial statements* are to be taken as references to other financial information if the engagement is on subject matter other than historical financial statements. Paragraph .A1 to AR-C section 60 reads as follows (paragraphs .A1 to AR-C sections 70 and 80 are proposed to read substantively similar):

If the accountant is engaged to perform an engagement in accordance with SSARs on financial information other than historical financial statements (for example, the preparation or compilation of prospective financial information or the compilation of pro forma financial information), references in this section to *financial statements* are to be taken as references to such other financial information.

The guidance is proposed to be included in the AR-C sections as opposed to an interpretation so as to more readily available to accountants using the SSARs.

**Action Requested of the ARSC**

The ARSC is asked to consider whether it agrees with the proposed application guidance to AR-C sections 60, 70, and 80.

Management Responsibilities in SSARs Engagements

At its meeting in May 2016, the ARSC directed that paragraph .25c(ii) of AR-C section 60 be revised so that the accountant need not obtain the agreement of management that it acknowledges and understands its responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, if the accountant determines to accept responsibility for such internal control.

**Action Requested of the ARSC**

The ARSC is asked to consider paragraph .25c(ii) in the proposed standard included as agenda item 1A and whether it agrees with the proposed revision. The ARSC is also asked to consider whether additional illustrative engagement letters should be presented (in either the exhibits to AR-C sections 70 and 80 or the Guide).

Compilation of Prospective Financial Information

As previously stated, the ARSC directed that the draft standard be revised so that the requirements and guidance for compilations of prospective financial information hangs off of AR-C section 80. Any necessary incremental requirements and guidance would be included in either a separate AR-C section, as a revision to AR-C section 80, or in the proposed Prospective Financial Information Guide.

The following represents the requirements from the exposure draft *Compilation of Prospective Financial Information* that are not included in AR-C section 80. The ARSC is asked to consider each requirement and determine whether:

- a) AR-C section 80 should be revised or a new AR-C section should be developed to include such requirement
- b) The proposed Prospective Financial Information Guide should interpret AR-C section 80 so as to include the requirement
- c) The requirement should not be included in authoritative literature

Requirement	A	B	C
<b>Acceptance and Continuance of Client Relationships</b>			
Because a financial projection is not appropriate for general use, an accountant should not permit the use of the accountant's name in conjunction with a financial projection that the accountant has reason to believe will be distributed to those who will not be negotiating directly with the responsible party.			
<p>Unless required by law or regulation to do so, an accountant should not accept a compilation engagement on:</p> <ul style="list-style-type: none"> <li>a. A forecast or projection, unless the responsible party has agreed to disclose the significant assumptions.</li> <li>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.</li> <li>c. A partial presentation that does not describe the limitations on the usefulness of the presentation.</li> </ul>			
<b>Agreement on Engagement Terms</b>			
<p>The accountant should agree upon the terms of the engagement with the responsible party. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement between the parties and should include the following: (Ref: par. A13–A17)</p> <ul style="list-style-type: none"> <li>a. The objectives of the engagement</li> <li>b. The responsibilities of the responsible party set forth in paragraph .25c of AR-C section 60 and paragraph 11 of this section</li> <li>c. The responsibilities of the accountant</li> <li>d. The limitations of the compilation engagement</li> <li>e. Identification of the guide as the source for the presentation guidelines for the prospective financial information</li> <li>f. Whether the prospective financial information will omit disclosures required by the presentation guidelines established by the AICPA</li> </ul>			

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Requirement	A	B	C
<p><i>g.</i> The responsible party's agreement that the prospective financial information will include disclosure of the significant assumptions</p> <p><i>h.</i> If the prospective financial information is a projection, the responsible party's agreement that the financial projection</p> <p style="padding-left: 40px;"><i>i.</i> Will not be distributed to those who will not be negotiating directly with the responsible party (for example, in an offering statement of an entity's debt or equity interests), unless the projection is used to supplement a financial forecast and is for a period covered by the forecast</p> <p style="padding-left: 40px;"><i>ii.</i> Will include (a) an identification of the hypothetical assumptions and (b) a description of the limitations on the usefulness of the presentation</p> <p><i>i.</i> If the prospective financial information is a partial presentation, the responsible party's agreement that the partial presentation will not be distributed to those who will not be negotiating directly with the responsible party</p> <p><i>j.</i> The expected form and content of the accountant's compilation report and a statement that there may be circumstances in which the report may differ from its expected form and content</p> <p><i>k.</i> A statement that, if the responsible party intends to reproduce and publish the prospective financial information and the accountant's compilation report thereon, they need to be reproduced in their entirety and approved by the accountant prior to issuance.</p>			
<b>The Accountant's Compilation Report on Prospective Financial Information</b>			
<p>In addition to the report elements required by paragraph .17 of AR-C section 80, an accountant's compilation report on pro forma financial information should include the following:</p> <p style="padding-left: 40px;"><i>a.</i> If the prospective financial information is a forecast, include a statement that a financial forecast is prospective financial statements that</p>			

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Requirement	A	B	C
<p>present, to the best of the responsible party's knowledge and belief, an entity's expected financial position, results of operations, and cash flows.</p> <p><i>b.</i> If the prospective financial information is a projection, include a statement that a financial projection is 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.</p> <p><i>c.</i> Include a statement that the forecasted or projected results may not be achieved.</p> <p><i>d.</i> Include a statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report.</p>			
<p>An accountant's compilation report on a financial projection should include a statement describing the special purpose for which the projection was prepared and an alert, in a separate paragraph, that restricts the use of the accountant's report; the alert should</p> <p><i>a.</i> state that the report is intended solely for the information and use of the specified parties,</p> <p><i>b.</i> identify the specified parties for whom use is intended, and state that the accountant's report is not intended to be and should not be used by anyone other than the specified parties.</p>			
<p>When the prospective financial statements contain a range, the accountant's compilation report should 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.</p>			

**Overall Action Requested of the ARSC**

The ARSC is asked to consider voting to issue the proposed standard as a final SSARS.

**Agenda Items Presented:**

Agenda item 1A      Draft of the proposed SSARSs *Omnibus – 2016*