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May 22, 2014

Ms. Sharon Macey  
Audit and Attest Standards  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

**Subject: American Institute of Certified Public Accountants Auditing Standards Board's January 2014 Exposure Draft for a Proposed Statement on Standards for Attestation Engagements, Entitled *Subject-Matter Specific Attestation Standards: Clarification and Recodification***

Dear Ms. Macey:

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Auditing Standards Board's (ASB) proposed *Subject-Matter Specific Attestation Standards: Clarification and Recodification*. We support the ASB's efforts to apply clarity drafting conventions and to converge its standards with those of the International Auditing and Assurance Standards Board, which we believe will help ensure consistency of practice for those performing attestation engagements. We also support the ASB's efforts to revise the structure of the attestation standards to minimize the repetition of material that is either common to all attestation engagements or all examination, review, or agreed-upon procedures engagements.

The ASB asks respondents to consider whether this revised structure facilitates understanding and implementation of the standards, and is seeking comments specifically on changes resulting from applying the clarity drafting conventions and the effect of these changes on the content of the proposed standards. Our specific comments follow.

**Requests for Specific Comments**

*1. Are the objectives of the practitioner in each of the chapters appropriate?*

We agree with the objectives in each of the chapters and find them appropriate. We found that such objectives generally align with the objectives established in chapters 2, 3, and 4, as included in the ASB's proposed *Attestation Standards: Clarification and Recodification*.<sup>1</sup> However, we believe that the reporting objectives in chapters 5 and 6 could be enhanced to more clearly indicate that the practitioner should report on the subject matter, rather than the written assertion provided by management, in examinations of prospective financial information and examinations and reviews of pro forma financial information. For example, the reporting objectives in chapter 5 and 6 for examinations of prospective financial information and pro forma financial information, respectively, could be revised to read as follows: "express an opinion in a

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<sup>1</sup>*Attestation Standards: Clarification and Recodification* was exposed for public comment on July 14, 2013. GAO's comment letter for this proposed statement on standards for attestation engagements can be found at <http://www.gao.gov>.

written report on whether the prospective financial information [or pro forma financial information] is in conformity with the criteria.” Additionally, the reporting objectives in chapter 6 for reviews of pro forma financial information could be revised to read as follows: “express a conclusion in a written report about whether any material modifications should be made to the pro forma financial information in order for it to be in conformity with the criteria.”

We concur with the ASB’s restructuring of the attestation standards so that the requirements and application guidance applicable to any attestation engagement are in chapter 1, with performance and reporting requirements and application guidance specific to examination, review, and agreed-upon procedures engagements in chapters 2, 3, and 4, respectively. We further agree that the subject-matter specific attestation standards should build on chapters 1 through 4 and not repeat the requirements and application guidance found in those chapters, with the exception of a repetition of the required report elements.

2. *Are the substantive and language changes to extant AT sections 301, 401, and 601 made by the exposure draft appropriate?*

We found most of the substantive and language changes to extant AT sections 301, 401, and 601 appropriate. However, we believe the following suggested revisions will enhance the clarity of certain requirements and application guidance and better ensure consistency of practice.

Specifically, we found that the following terms were not consistently used throughout chapter 5: prospective financial information, prospective financial statements, and partial presentation. For example, paragraph 5.27 states that when the prospective financial statements contain a range, the practitioner’s report should also include an explanatory paragraph that states that the responsible party has elected to portray the expected results of one or more assumptions as a range. However, we believe the term prospective financial information should be used in lieu of prospective financial statements because this requirement would also be applicable when a partial presentation contains a range. To better ensure the consistent use of such terms, we recommend that prospective financial information be used in lieu of prospective financial statements throughout chapter 5, to the extent that the requirements and application guidance are relevant to both prospective financial statements and partial presentations. We also recommend that a definition for prospective financial information be included in the definitions section of chapter 5. Such a definition could be modeled after the definition for attestation engagement in the definitions section of chapter 1 and incorporate the information included in paragraphs 5.2 and 5.9, as follows:

**Prospective financial information.** Prospective financial information can take the form of prospective financial statements or partial presentations, defined as follows:

- 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.
- ii. *Partial presentation.* A presentation of prospective financial information that excludes one or more of the items required for prospective financial statements as described in chapter 8 of the guide. A partial presentation may include either forecasted or projected

information and may either be extracted from a presentation of prospective financial statements or may be prepared to meet a specific need. (Ref: par. 5.A8)

Consistent with the inclusion of the term criteria for the preparation of pro forma financial information in chapter 6, we recommend that the following term be included in the definitions section of chapter 5:

**Criteria for the preparation of prospective financial information.** The guidelines for the preparation and presentation of prospective financial information established by the American Institute of Certified Public Accountants and the assumptions underlying the prospective financial information.

We recommend that a reference to the application guidance in paragraphs 5.A5 and 5.A6 be included at the end of paragraph 5.10.

Because the responsible party may not always be management, we recommend that paragraph 5.25e be revised as follows:

- e. a statement to identify
  - i. the responsible party and its responsibility for preparing and presenting the prospective financial information
  - ii. the practitioner's responsibility for expressing an opinion on the prospective financial information based on the examination

To better ensure that each of the required report elements for examinations of prospective financial information are clearly identified, including those report elements that are applicable only for examinations of financial projections, we recommend that paragraphs 5.25 and 5.26 be revised as illustrated in enclosure I.

We recommend that the term criteria for the preparation of pro forma financial information in chapter 6 be revised as follows:

**Criteria for the preparation of pro forma financial information.** The basis disclosed in the pro forma financial information that management used to develop the pro forma financial information and the assumptions underlying the pro forma financial information.

The term level of service is not used elsewhere within the attestation standards nor is it included in the definitions section of chapter 6. As such, we recommend that paragraph 6.9 be revised as follows:

6.9. Because the practitioner's attestation risk relating to the pro forma financial information is affected by the scope of the engagement, providing the practitioner with assurance about the underlying historical financial information of the entity (or, in the case of a business combination, of each significant constituent part of the combined entity) to which the pro forma adjustments are applied, the level of assurance obtained by the practitioner on the pro forma information should not exceed that obtained on the historical financial statements (or, in the case of a business combination, the lowest level of assurance obtained on the underlying historical financial statements of any significant constituent part of the combined entity). (Ref: par. 6.A7)

We recommend that the following requirement be added to the conditions for engagement acceptance and continuance for agreed upon procedures engagements in chapter 7:

Although not required by chapter 4 of the attestation standards, in performing an agreed upon procedures engagement under this chapter, the practitioner should obtain from the responsible party a written assertion about compliance with specified requirements. The responsible party may present its written assertion in either of the following:

- a. A separate report that accompanies the practitioner's report
- b. A representation letter to the practitioner (Ref: par. 7.A12)

3. *Are there considerations for less complex entities and governmental entities that should be addressed in the exposure draft?*

We appreciate the attention the ASB has given to governmental entities in the exposure draft by alluding to the practitioner's procedures when an attestation engagement is required by law or regulation. In certain circumstances, law or regulation will not allow a practitioner to withdraw from an engagement when withdrawal would otherwise be appropriate under the attestation standards. As such, we recommend that paragraphs 5.24 and 7.22 be revised as follows:

5.24. In an examination of prospective financial information, the practitioner should obtain from the responsible party the written representations required by chapter 2 and paragraphs 5.21 or 5.22, even if the engaging party is not the responsible party. The alternative to obtaining the required written representations provided for in chapter 2 is not permitted in an engagement to examine prospective financial information. The responsible party's refusal to furnish the written representations required by chapter 2 and paragraphs 5.21 or 5.22 constitutes a limitation on the scope of the engagement sufficient to preclude an unqualified opinion and may be sufficient to cause the practitioner to withdraw from the examination engagement, when withdrawal is possible under applicable laws or regulations. (Ref: par. 5.A22)

7.22. In an examination of compliance, the practitioner should obtain from the responsible party the written representations required by chapter 2 and paragraph 7.21, even if the engaging party is not the responsible party. The alternative to obtaining the required written representations provided for in chapter 2 is not permitted in an engagement to examine compliance. The responsible party's refusal to furnish the written representations required by chapter 2 and paragraph 7.21 constitutes a limitation on the scope of the engagement sufficient to preclude an unqualified opinion and may be sufficient to cause the practitioner to withdraw from the examination engagement, when withdrawal is possible under applicable laws or regulations. (Ref: par. 7.A19)

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We thank you for considering our comments on these important issues as the ASB applies the clarity drafting conventions to the attestation standards.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a prominent initial "J" and a long horizontal stroke at the end.

James R. Dalkin  
Director  
Financial Management and Assurance

Enclosure

### Required Report Elements for Examinations of Prospective Financial Information

#### Reporting on an Examination of Prospective Financial Information

**5.25** The practitioner's examination report on prospective financial information should include the following elements, unless the practitioner is disclaiming an opinion, in which case items 5.25e(ii), 5.25f(i–iii), and 5.25g should be omitted:

- a. A title that includes the word independent
- b. An appropriate addressee as required by the circumstances of the engagement
- c. An identification of the prospective financial information being reported on, including the period of time to which the prospective financial information relates
- d. An indication that the criteria against which the prospective financial information was measured or evaluated are the guidelines for the presentation of prospective financial information established by the American Institute of Certified Public Accountants
- e. A statement to identify
  - i. the responsible party and its responsibility for preparing and presenting the prospective financial information
  - ii. the practitioner's responsibility for expressing an opinion on the prospective financial information based on the examination
- f. A statement that
  - i. the examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants
  - ii. those standards require that the practitioner plan and perform the

#### Reporting on an Examination of Prospective Financial Information

**5.A23.** The list of report elements in paragraphs 5.25–5.26 constitutes all of the required report elements for an examination of prospective financial information, including the elements required by chapter 2 of the attestation standards.<sup>1</sup> Application guidance regarding the elements of an examination report is included in chapter 2 of the attestation standards.<sup>2</sup> (Ref: par. 5.25–5.26)

**5.A24.** When a practitioner examines a projection, the practitioner's opinion regarding the assumptions should be is conditioned on the hypothetical assumptions; that is, the practitioner should expresses an opinion on whether the assumptions provide a reasonable basis for the projection *given the hypothetical assumptions*. (Ref: par. 5.25)

**5.A25.** Example 1 in exhibit A of this chapter provides an illustration of a report on an examination of a financial forecast. Example 2 in Exhibit A provides an illustration of an examination report on a financial projection. (Ref: par. 5.25)

**5.A26.** The requirements in paragraph 5.25 are also applicable to a report on a partial presentation. (Ref: par. 5.25 and 5.30.)

**5.A27.** When the practitioner's examination of prospective financial statements is part of a larger engagement, for example, a financial feasibility study or business acquisition study, it is appropriate to expand the report on the examination of the prospective financial statements to describe the entire engagement. Paragraphs 26–27 of chapter 17 of the guide address reporting when the examination engagement is part of a larger engagement. (Ref: par. 5.25)

<sup>1</sup> Paragraph 2.52.

<sup>2</sup> Paragraphs 2.A73–2.A91.

### Required Report Elements for Examinations of Prospective Financial Information

<p>examination to obtain reasonable assurance about whether the prospective financial information is free from material misstatements based on the AICPA presentation guidelines</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>iv. describes the significant inherent limitations, if any, associated with the measurement or evaluation of prospective financial information against the AICPA presentation guidelines</p> <p>g. A description of the nature of an examination engagement</p> <p>h. The practitioner's opinion about whether the prospective financial information is presented in conformity with the AICPA guidelines for the presentation of prospective financial information and</p> <p>i. for financial forecasts, whether the underlying assumptions are suitably supported and provide a reasonable basis for the forecast</p> <p>ii. for financial projections, whether the underlying assumptions are suitably supported and provide a reasonable basis for the projection, <i>given the hypothetical assumptions</i></p> <p>i. A caveat that the prospective results may not be achieved</p> <p>j. A statement that the practitioner assumes 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</p>	
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### Required Report Elements for Examinations of Prospective Financial Information

<p>practices</p> <p>m. The date of the report (The report should be dated no earlier than the date on which the practitioner has obtained sufficient appropriate evidence on which to base the practitioner's opinion, including that the responsible party has provided a written assertion.)</p> <p>n. <u>For financial projections, the practitioner's examination report should include statements to</u></p> <ul style="list-style-type: none"> <li>i. <u>identify the hypothetical assumptions for the projection</u></li> <li>ii. <u>describe the special purpose for which the projection was prepared</u></li> </ul> <p>(Ref: par. 5.A23–<u>5.A27</u>)</p>	
<p><b>5.26</b> <del>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>. [moved to 5.A24] In addition to the required elements for a report on an examination of a forecast, a report on an examination of a projection should include an identification of the hypothetical assumptions, a statement describing the special purpose for which the projection was prepared, [moved to 5.25n] The practitioner's examination report on a financial projection should include an alert that restricts the use of the practitioner's report. The alert should</del></p> <p>a. <del>state that the practitioner's report is intended solely for the information and use of the specified parties,</del></p>	<p><b>5.A28.</b> <u>Additional circumstances in which the practitioner's examination report is restricted are included in chapter 2 of the attestation standards.<sup>3</sup> Application guidance regarding restricted use paragraphs is included in chapter 2 of the attestation standards.<sup>4</sup> (Ref: par. 5.26)</u></p> <p><b>5.A29.</b> Chapter 2 of the attestation standards notes that the specified parties can be identified by naming them, referring to a list of them, or identifying them as a class.<sup>5</sup> (Ref: par. 5.26)</p> <p><b>5.A30.</b> <del>Example 2 in Exhibit A provides an illustration of an examination report on a financial projection. (Ref: par. 5.26)</del></p>

<sup>3</sup> Paragraph 2.52.

<sup>4</sup> Paragraph 2.A86-2.A89.

<sup>5</sup> Paragraph 2.A85.



**Required Report Elements for Examinations of Prospective Financial Information**

<p>b. identify the specified parties for whom use is intended, and</p> <p>c. state that the practitioner's report is not intended to be and should not be used by anyone other than the specified parties.</p> <p>When the engagement is also performed in accordance with government auditing standards, the alert that restricts the use of the report should include the following information, rather than the information required by paragraph 5.26(a-c)</p> <p>d. describe the purpose of the practitioner's report, and</p> <p>e. state that the practitioner's report is not suitable for any other purpose.</p> <p>(Ref: par. 5.A23 and 5.A28–5.A29)</p>	
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