

# Chapter - 11 " PFI and Other Assurance Services "

## (1) Other Assurance Engagements:

- Examination of subject matter other than Historical financial information.
- Examples : (a) Examination of Prospective Financial Information (PFI)  
(b) Assurance regarding non-financial matters.

### Standards on other Assurance Engagements:

(SAE 3000 - 3699)

- ✓ (i) SAE 3400 - Examination of PFI
- ✓ (ii) SAE 3402 - Assurance Reports on Controls at a Service Organisation
- ✓ (iii) SAE 3420 - Assurance Engagements to report on the compilation of Pro forma Financial Information included in a Prospectus.

### Audit - Reasonable Assurance

- Detailed Procedures
- Opinion
- Historical financial info.

### Review - Limited Assurance

- Limited Procedures
- Conclusions
- Historical financial info.

### Other Assurance

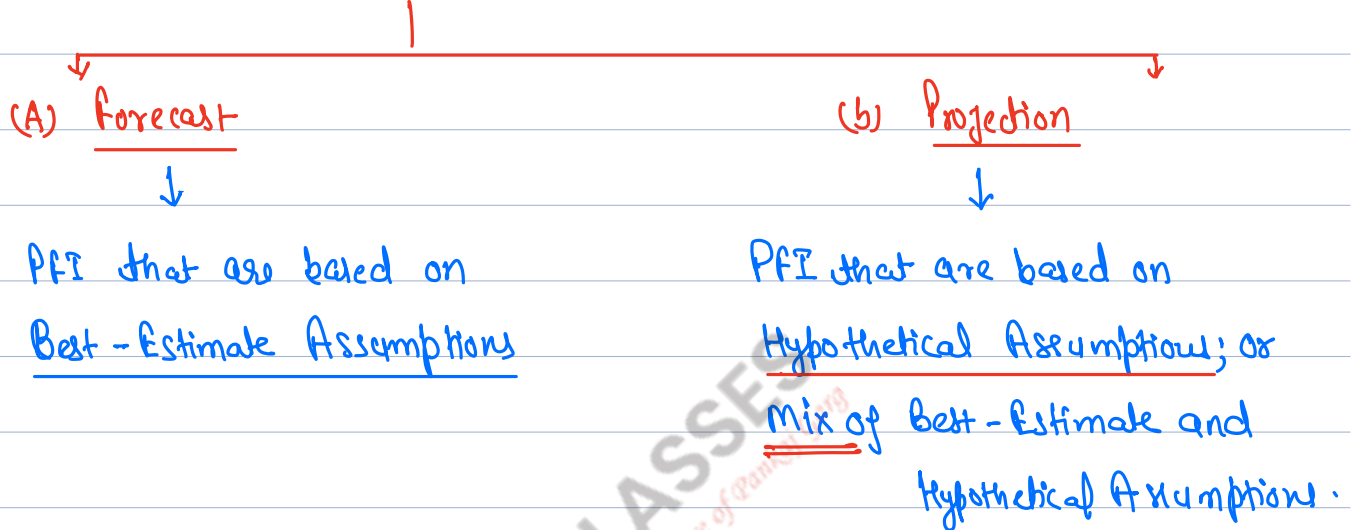
- Limited / Reasonable
- Limited / Specific / detailed
- Conclusion / Opinion
- Non Historical financial info.  
(Prospective financial info)
- Non financial Matter  
(Internal Control)

## (2) SAE 3400: Examination of PFI

(i) Meaning of PFI: Financial information based on:

- (a) Assumptions about future events; and
- (b) Possible actions by the entity.

PFI can be classified as



Note: Responsibility for prep<sup>n</sup> of PFI lies with Management.

U.V. Imp.  
(ii) Association of Professional Accountants with PFI:

- As per clause 3, Part I of 2<sup>nd</sup> Schedule to CA Act, 1949, a CA in practice shall be deemed to be guilty of professional misconduct, if he permits his name or firm's name to be used in connection with an estimate of earnings contingent upon future transactions

↓ in a manner

that lead to belief that he vouches for the accuracy of the forecast.

- Considering the above, a CA can participate in preparation of projections and forecasts and can review them, provided he indicates clearly in his report the following:

- (a) Source of Information
- (b) Basis of Forecast
- (c) Major Assumptions used

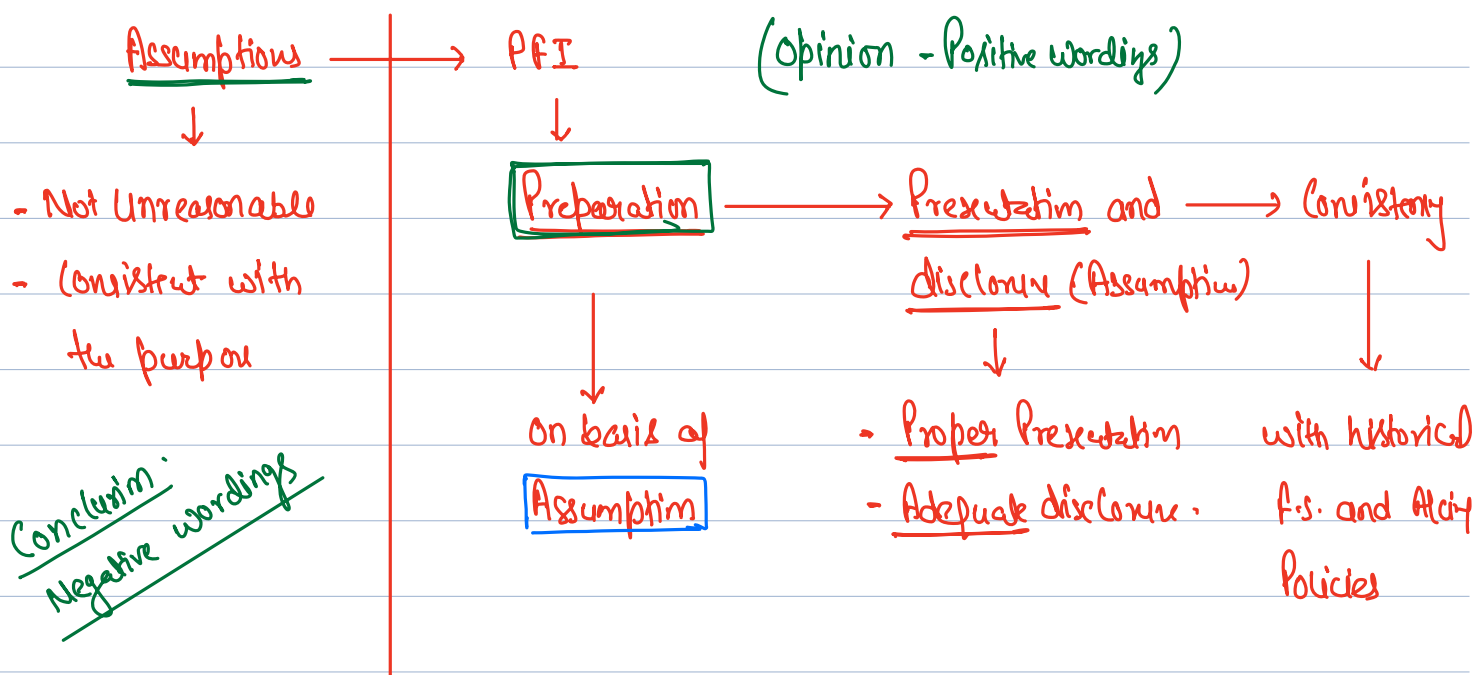
**AND**

he does not touch for the accuracy of the forecast or projection.

<sup>Imp</sup>  
(iii) Auditor's duties while examining the PFI:

Auditor is required to obtain sufficient and appropriate evidences whether:

- (a) Best Estimate Assumptions used are not Unreasonable; and Hypothetical Assumptions are consistent with the purpose of info.
- (b) PFI is prepared on the basis of assumption
- (c) PFI is properly presented and assumptions used are adequately disclosed
- (d) PFI is prepared on a consistent basis with historical f.s. using appropriate accounting policies.



#### (iv) Acceptance of Engagement:

Before acceptance, auditor shall consider the following:

- (a) Intended Use of Information
- (b) Distribution of Information - General or Limited.
- (c) Nature of Assumptions - Best Estimate or Hypothetical.
- (d) Elements to be included in Information
- (e) Period covered by the information

Information - Use, Distribution, Elements, Period; Assumption

Do not accept the Engagement In case of (a) Unrealistic Assumptions; or

(b) Inappropriate for intended Use.

#### Imp:

#### (v) Matters to be considered while determining NTE of Procedures:

- (a) Knowledge Obtained during previous engagements;
- (b) Management Competency regarding preparation of PFI.
- (c) Likelihood of Material Misstatement.
- (d) Extent to which PFI is affected by Mngt. Judgements.
- (e) Source of Information - Adequacy, reliability etc.
- (f) Stability of Entity business.
- (g) Engagement Team experience with client's business and industry in which client operates.

#### Imp:

#### (vi) Matters to be considered while assessing Presentation and Disclosure of PFI:

(A) Presentation: Informative and not misleading.

(B) Disclosures:

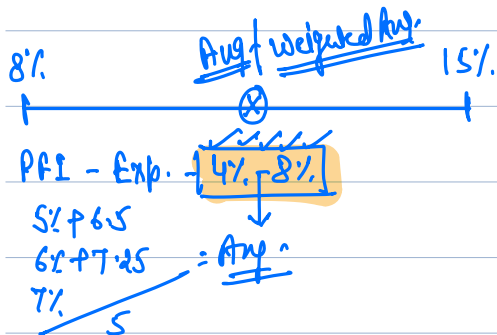
(i) Accounting Policies

(ii) Assumptions used with their nature

(iii) Date of PFI

(iv) Basis of Establishing points in a Range.

(v) Changes in Accounting Policies along with reasons and effects thereof.



(vii) Other topics:

— Reading from book —

③ SAE - 3402: "Assurance Reports on Controls at a Service Organisation"

(i) Introductory topics:

— Covered along with SA 402 —

USER ENTITY — Auditor → User auditor - Audit the f.s. of  
User Entity



for that purpose, SAE are obtained applying procedures as stated in SA 402.

Service Organisation (S.O.) — auditor — Service auditor — Audit the f.s. of  
 S.O.



Also Engaged to Report on description, design, controls, control objectives and operating effectiveness of controls prevailing at S.O. (to be used by User auditor).

## ii) Objectives of Service Auditor:

(A) To obtain Reasonable Assurance, whether based on suitable Criteria,

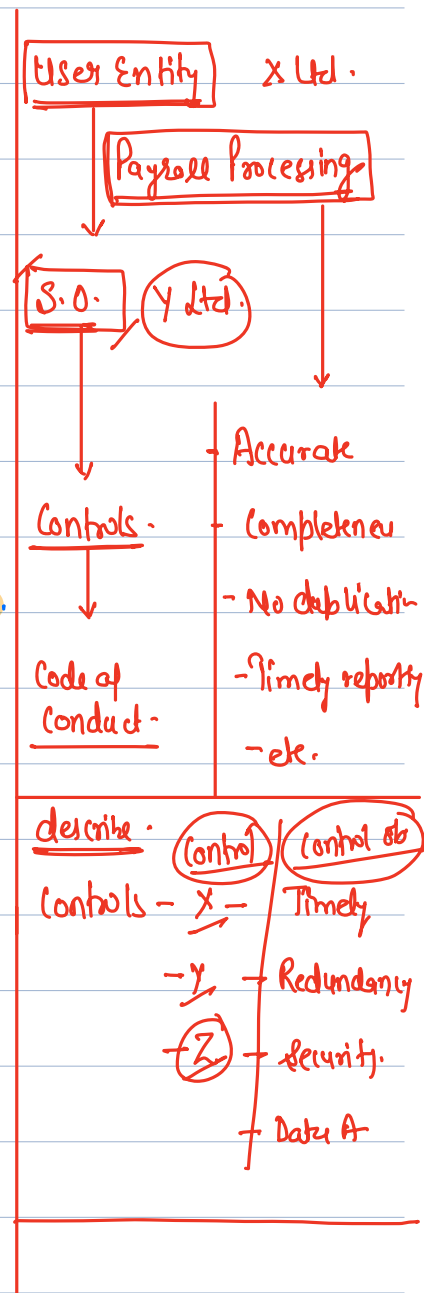
- i) S.O. description of its system fairly presents the system as designed and implemented;
- ii) Controls related to control objectives were suitably designed;
- iii) Control objectives stated in S.O. description of its system were achieved.

(B) To Report on the above stated matters.

Criteria: Benchmark used to evaluate the subject matters.

## iii) Performing the Engagement:

- (a) Comply with Relevant Ethical Requirements.
- (b) Determine persons in Management and Governing Role.
- (c) Accept the Engagement after determining that:
  - i) he possess necessary capability and competence.
  - ii) Criteria applied is suitable and available to User Entity and User auditor.
  - iii) No limitation imposed on Scope.
- (d) Consider Materiality w.r.t. fair description of controls.
- (e) Obtaining understanding of S.O. System and Controls.
- (f) Obtain Evidences regarding - Description;  
- Design; and  
- Operating effectiveness of Controls.



Imp-  
(iv) Obtaining Written Representations (WRs): Service Auditor shall request S.O. to provide the WRs:

- (a) that reaffirms the assertions accompanying description of system;
- (b) that it has provided to auditor with all relevant information and access agreed to; and
- (c) that it has disclosed to auditor the following matters of which mgmt. is aware of:
  - (i) NOCLAR; fraud or uncorrected deviations.
  - (ii) Design deficiencies in controls.
  - (iii) Instances where controls have not been operated as described;
  - (iv) Events subsequent to period covered by S.O. description of its system upto date of Service Auditor Assurance report.



(v) Elements of Assurance Report: - Reading from book -

Additional matters requiring reporting in Type 2 Report:

- (A) Include a separate section after the opinion that describes Tests of controls performed and results of those tests.
- (B) In describing TOCs, clearly state which controls were tested;
  - ✓ Identify the items tested; and
  - ✓ Indicate Nature of tests.
- (C) If deviations identified, include the extent of testing performed and Number and nature of deviations.
- (D) Report deviations, even if it was concluded that related control objectives are achieved.

Modified opinions: Required if:

- (a) Description does not fairly present, in all material respects, system as designed and implemented;
- (b) Controls relating to control objectives were not designed in all material respects;
- (c) In case of Type 2 Report, Controls tested did not operate effectively, in all material respects; Or
- (d) Service auditor is unable to obtain sufficient appropriate Evidences.