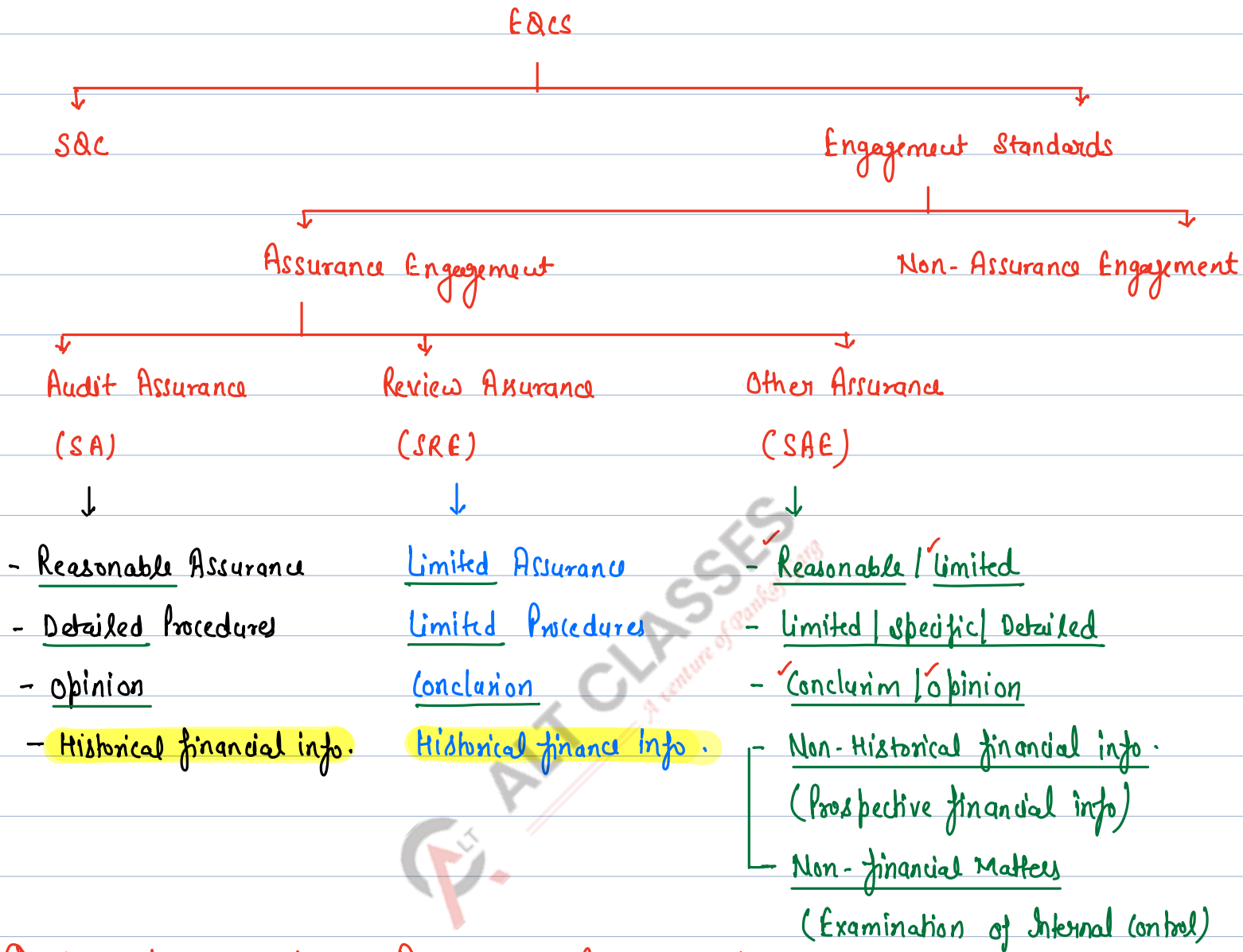


Chapter - 11 " PFI and Other Assurance Services



① Meaning of Other Assurance Engagements:

Examination of subject matter other than historical financial information.

Standards on Other Assurance Engagements: SAE 3000-3699

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

② SAE - 3400 "Examination of Prospective Financial Information":

(i) Meaning and Types of PFI: — From Book —

(ii) Management Responsibility: Management is responsible for preparation of PFI, including: (a) Identification and disclosure of PFI; (b) Explaining the Basis of forecast; (c) Underlying Assumptions.

Imp:-

(iii) Association of Professional Accountants with PFI:

- As per clause 3, Part I of Second 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 the following in his report:
 - (a) Source of Information
 - (b) Basis of forecast
 - (c) Major Assumptions used; and
 - (d) a statement that he does not vouch for the accuracy of the forecast or projection.

Note: Assisting Mngt. in preparation of forecast and review of such forecast thereafter, by same practitioner, should be avoided, as it results into Self-Review Threat.

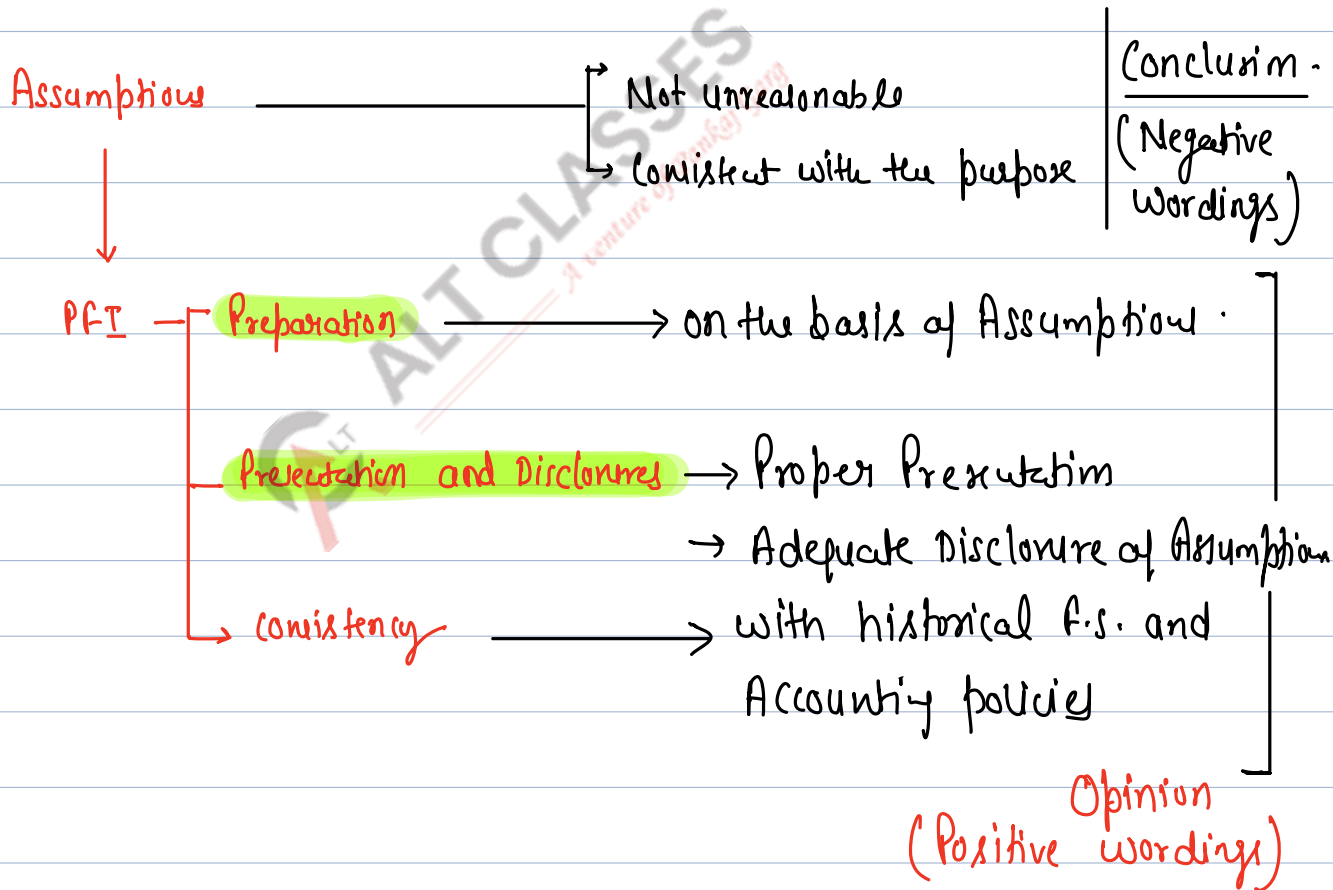
Hence, both these activities (i.e. preparation and examination) should be carried out by different practitioners.

(iv) Auditor's duties while examining PFI:

Auditor is required to obtain sufficient and appropriate evidence whether:

- (a) Best Estimate Assumption used are not reasonable; and Hypothetical Assumptions are consistent with purpose of information. → Conclusion
- (b) PFI is prepared on the basis of assumptions.
- (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

Opinion



(v) Acceptance of Engagement: Before acceptance, auditor should consider the following:

- (a) Intended use of information
 - (b) Distribution of information - General or limited;
 - (c) Elements to be covered in the information
- Assumptions: - Use, Distribution
Nature: - Elements, Period

- (d) Period covered by the information; and
(e) Nature of Assumption - Best-estimate or Hypothetical.

Do not accept the engagement in case of: (a) Unrealistic Assumptions; or
(b) Inappropriate information for intended use.

Imp:-
(vi) Matters to be considered while determining NTE of Procedure:

- (1) Knowledge obtained during previous engagements.
- (2) Management competency regarding ^{preparation and} presentation of PFI.
- (3) Likelihood of material misstatements.
- (4) Extent to which PFI is affected by management judgements.
- (5) Sources of information considered by the Management for the purpose, their adequacy, reliability of underlying data etc.
- (6) Stability of Entity's business.
- (7) Engagement team experience with client's business and Industry in which client operates.

V-imp:-
(vii) Consideration while assessing Presentation and Disclosure of PFI:

- (A) Presentation: Consider whether Presentation of PFI is informative and not misleading.
- (B) Disclosure: Consider whether following disclosures are adequately made in PFI:
- (a) Accounting Policies.
 - (b) Assumptions used with their nature.
 - (c) Date on which PFI was prepared.

(d) Basis of establishing points in a range.

(e) Changes in accounting policies along with reasons and effects thereof.

Q iii) Report on Examination of PFI: - From Book -

