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# AUDIT-95

## CA Final & CA Inter Audit

Abki Baar Audit Mei Exemption Paaar!



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AIR 5,6,32

*Free Revision  
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Notes*

### Brief about Author

- All India Ranker at all 3 levels of CA
- Scored 95 Marks in Audit - Highest marks in history of ICAI till Nov 23
- Articleship at KPMG, Mumbai in Statutory Audit Domain
- Industrial Training at DBS Bank

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**SAE 3400 - Examination of Prospective Financial Info (PFI)**

<ul style="list-style-type: none"> <li>• <b>Level of assurance</b> provided by SAE is <b>moderate</b></li> <li>• SAE 3400 <b>need not</b> be performed by <b>statutory auditor</b> of FS</li> </ul> <p>"PFI" is financial info based on -</p> <ul style="list-style-type: none"> <li>• <b>Assumption</b> for <b>event</b> that may occur in future</li> <li>• <b>Possible actions</b> by entity</li> </ul> <p>It is <b>highly subjective</b> in nature &amp; requires <b>judgment</b>. It can be in <b>form of</b> -</p> <ul style="list-style-type: none"> <li>• <b>Forecast</b> - PFI prepared on basis of -             <ul style="list-style-type: none"> <li>○ <b>Assumptions</b> for future events which Mgt <b>expects to take place</b> &amp;</li> <li>○ <b>Actions</b> Mgt expects to <b>take</b></li> </ul> </li> <li>• <b>Projection</b> - PFI prepared on basis of -             <ul style="list-style-type: none"> <li>○ <b>Hypothetical assumption</b> for future events &amp; Mgt <b>actions</b> which are <b>not</b> necessarily <b>expected to take place</b></li> </ul> </li> <li>• Or <b>combination</b> of both</li> </ul> <p><b>Scope of SAE-3400</b></p> <ul style="list-style-type: none"> <li>• This SAE does <b>not apply</b> to examination of PFI in <b>general/narrative terms</b>. Eg. Mgt's discussion &amp; analysis in annual report.</li> <li>• <b>Other SAs</b> are also <b>applicable</b></li> </ul>	<p><b>Nature of Assurance for PFI</b></p> <p><b>Opinion</b> as to whether results in <b>PFI</b> will be <b>achieved cannot be expressed</b></p> <p><b>Mgt's Responsibility for Preparation &amp; Presentation of PFI</b></p> <ul style="list-style-type: none"> <li>• Underlying <b>assumptions</b></li> <li>• Explaining <b>basis of forecast</b></li> <li>• <b>Identification</b> &amp; Disclosure of <b>PFI</b></li> </ul> <p><b>Can Professional Accountants be associated with PFI?</b></p> <ul style="list-style-type: none"> <li>• CA <b>can participate</b> in preparation of forecasts/ projections &amp; <b>can review</b> them, provided he <b>indicates</b> clearly in his report <b>sources</b> of info, <b>basis</b> of forecasts/projections &amp; <b>major assumptions</b> made &amp;</li> <li>• He <b>does not vouch for accuracy of forecasts</b> (vs Prof Ethics Clause)</li> </ul> <p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>• Matters providing <b>evidence to support report</b> on examination of PFI &amp;</li> <li>• Evidence that such <b>examination</b> was <b>carried out as per this SAE</b></li> </ul>
<p><b>Duties of Member Examining PFI</b></p> <p>Auditor shall obtain SAAE if -</p> <ul style="list-style-type: none"> <li>• Mgt's <b>best-estimate</b> assumptions are <b>not unreasonable</b> &amp; <b>hypothetical</b> assumptions are <b>consistent with purpose</b> of info</li> <li>• <b>PFI</b> is properly <b>prepared</b> on basis of <b>assumptions</b></li> <li>• <b>PFI</b> is prepared on <b>consistent</b> basis with <b>historical FS</b> using appropriate <b>a/cing policies</b></li> <li>• <b>PFI</b> is properly <b>presented</b> &amp; all material <b>assumptions</b> are adequately <b>disclosed</b>, indicating if best-estimate or hypothetical</li> </ul>	<p><b>Precautions Before Accepting Engagement</b></p> <p>Auditor would consider -</p> <ul style="list-style-type: none"> <li>• <b>Nature of assumptions</b> - best estimates or hypothetical</li> <li>• <b>Elements</b> to be <b>included</b> in info &amp;</li> <li>• <b>Period covered</b> by info</li> <li>• <b>Intended use</b> of info</li> <li>• Whether info will be for <b>general or limited distribution</b></li> </ul> <p>Auditor should <b>not accept</b>, or <b>withdraw</b> from, engagement when <b>assumptions</b> are <b>unrealistic</b> or when <b>PFI</b> will be <b>inappropriate</b> for its intended <b>use</b>. <b>Terms</b> should be <b>agreed</b> with client by sending <b>engagement letter</b></p>

<p><b>Determining NTE of Examination Procedures</b></p> <p>Following factors to be considered -</p> <ul style="list-style-type: none"> <li>• <b>Sources</b> of info, <b>adequacy, reliability</b> of underlying data</li> <li>• Extent of Mgt's <b>Judgment affecting PFI</b></li> <li>• Likelihood of <b>MM</b></li> <li>• <b>Mgt's competence</b> for preparation of PFI</li> <li>• <b>Stability</b> of entity's <b>business</b></li> <li>• Engagement <b>team's experience</b> of <b>business, industry &amp; PFI</b></li> <li>• <b>Knowledge</b> obtained during <b>previous</b> engagements</li> </ul>	<p><b>Presentation &amp; Disclosure - consider whether</b></p> <ul style="list-style-type: none"> <li>• <b>Presentation</b> is <b>informative</b> &amp; not misleading</li> <li>• <b>Assumptions</b> are adequately <b>disclosed</b>, &amp; if best-estimate or hypothetical</li> <li>• <b>Basis</b> of establishing points in <b>range</b> is clearly indicated &amp; range is <b>not selected in biased</b> or <b>misleading</b> manner</li> <li>• <b>Date</b> as of which <b>PFI</b> is prepared &amp; Mgt confirm that <b>assumptions</b> are <b>appropriate</b> as of this date</li> <li>• <b>A/cing policies</b> are clearly <b>disclosed</b></li> <li>• If there is <b>change in a/cing policy</b> from most recent historical FS, whether <b>reason &amp; effect</b> of change on PFI is adequately <b>disclosed</b></li> </ul>	
<p><b>Report on Examination of PFI</b></p> <ul style="list-style-type: none"> <li>• Title</li> <li>• Addressee</li> <li>• <b>Identification</b> of PFI</li> <li>• Reference to <b>SAs</b> applicable</li> <li>• Statement that <b>Mgt is responsible</b> for PFI &amp; assumptions</li> <li>• Reference to <b>purpose &amp; restricted distribution</b> of PFI</li> <li>• Statement that <b>examination procedures</b> included <b>evidence supporting assumptions, amounts &amp; disclosures</b> in forecast/ projection</li> <li>• Statement of <b>negative assurance</b> if <b>assumptions</b> provide <b>reasonable basis</b> for PFI</li> <li>• <b>Opinion</b> if <b>PFI</b> is properly <b>prepared</b> on <b>basis</b> of <b>assumptions</b> &amp; as per <b>AFRF</b></li> <li>• <b>Appropriate caveats</b> for achievability of results of PFI</li> <li>• <b>Date</b> of report (when <b>procedures</b> are <b>completed</b>)</li> <li>• <b>Place</b> of signature &amp;</li> <li>• <b>Signature</b></li> </ul>	<p><b>Such a report would</b></p> <ul style="list-style-type: none"> <li>• State whether <b>anything</b> has come to <b>attention</b> that <b>assumptions do not</b> provide <b>reasonable basis</b> for PFI</li> <li>• <b>Express opinion</b> as if <b>PFI</b> is properly <b>prepared</b> on basis of <b>assumptions</b> &amp; as per <b>AFRF</b></li> <li>• <b>State</b> that -             <ul style="list-style-type: none"> <li>○ <b>Actual results</b> are likely to be <b>diff from PFI</b> &amp; variation could be material</li> <li>○ If expressed as <b>range</b> there is <b>no assurance</b> that <b>actual results</b> will fall <b>within range</b></li> <li>○ In case of <b>projection</b>, <b>PFI</b> has been <b>prepared</b> for (<b>intended use</b>), using hypothetical assumptions &amp; hence, readers are cautioned that <b>PFI should not be used for other purposes</b></li> </ul> </li> </ul>	
<p>When <b>presentation &amp; disclosure</b> of PFI is <b>not adequate, qualified or adverse</b> opinion should be expressed <b>or withdrawal</b> should be made</p>	<p>When <b>significant assumptions</b> do <b>not</b> provide <b>reasonable</b> basis for PFI, <b>adverse</b> opinion with <b>reasons</b> should be expressed, <b>or withdrawal</b> should be made</p>	<p>When <b>examination</b> is affected by conditions that <b>preclude</b> application of <b>necessary procedures, withdrawal or disclaimer</b> of opinion &amp; describing <b>scope limitation</b> in report is considered</p>