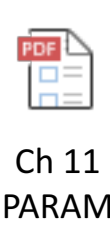


- Class will start in few minutes
- Download imp questions & class notes from instructions in description



Ch 11
PARAM

11 Prospective Financial Information and Other Assurance Services

Part 1 - SAE 3400

Ch 11
↓
3400
3402
3420

QNO 3400.100 Consistency with Historical Statements **New Course - (SM23)**
TITANIUM CNO -- 3400.040

A company has approached CA. Hemant for an assurance report in respect of prospective financial information of a project. On going through the project details, it is noticed that depreciation reflected on proposed fixed assets to be acquired in prospective financial information has been calculated in accordance with provisions of the Income Tax Act. No disclosure is made in this respect too. How the matter should be proceeded with?

Answer
In such types of engagements, it is the duty of a professional accountant to see that prospective financial information is based on a consistent basis with historical financial statements using appropriate accounting principles.
In the case of a company, historical financial statements are prepared considering the requirements of the Companies Act, and depreciation is calculated accordingly. However, in the given situation, depreciation has been calculated in accordance with Income Tax Act which is not consistent with historical financial statements. Therefore, it is not proper.
The fact that the projection has not been prepared on a consistent basis with the historical financial statements, using appropriate accounting principles needs to be stated.
Further, when presentation and disclosure are not adequate, a qualified or adverse opinion should be given or withdrawal from engagement should be made as appropriate.

Case Discussion
} concept
} conclusion

QNO 3400.200 Reporting on Prospective Financial Statements as Per CA Act **New Course - (SM23)**
TITANIUM CNO -- 3400.040

Discuss, how a Chartered Accountant can be associated with prospective financial information without violating relevant provisions of the Chartered Accountants Act, 1949

Answer
Clause 3 of Part I of Second Schedule Prescribes Following -
A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he
Clause (3): Permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in manner which may lead to the belief that he vouches for the accuracy of the forecast.
So, reporting can be done, just don't vouch accuracy of the forecast.

Second Sch → Part I → clauses
↓
Report
↓
Don't vouch accuracy - Assumptions
- Guarantee - Calculations
- Surety - P&O
- Confirms

Part 2 SAE 3402

QNO 3402.100 Assurance Report on Controls at Service Organisation **New Course - (SM23)**
TITANIUM CNO -- 3402.040

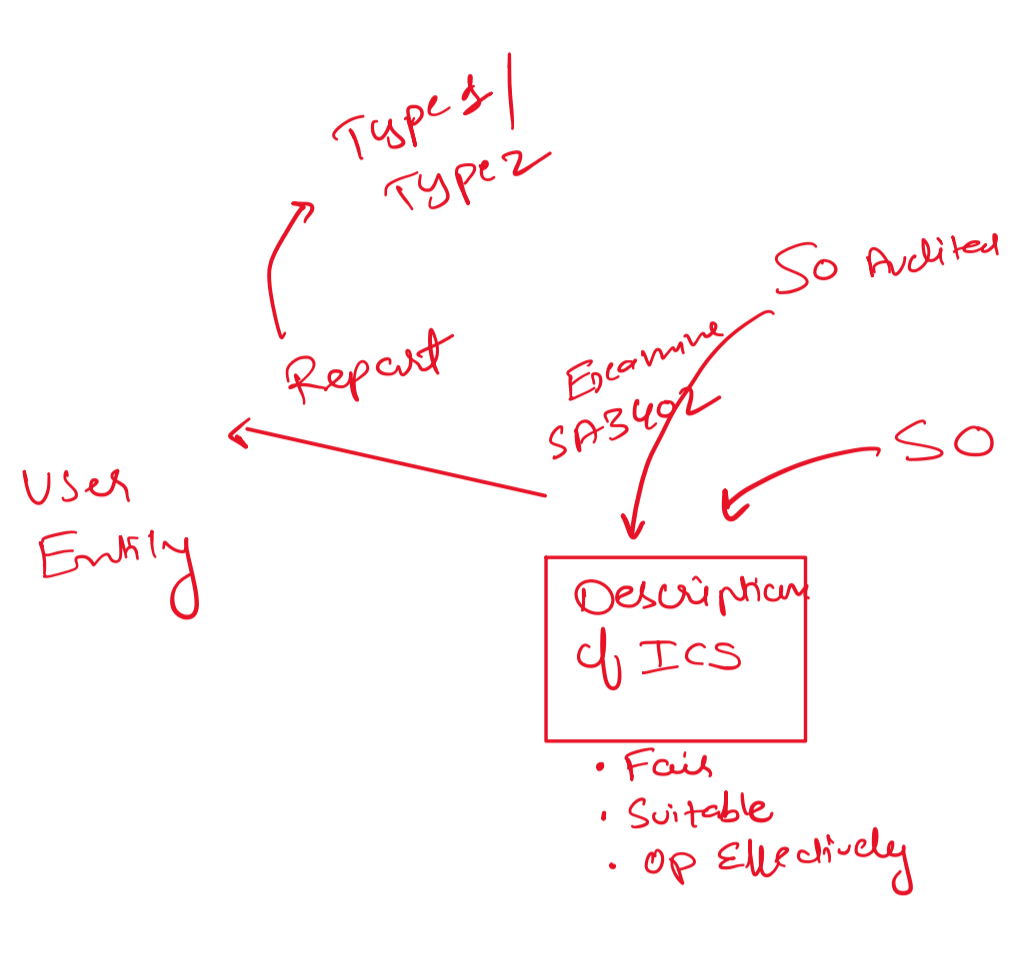
Ayurda Ltd. is a fast-growing and award-winning SaaS software company which is headquartered in Mumbai. It also has offices in the UK and provides cloud-based professional services automation (PSA) software solutions to professional services organizations around the world. They want to engage you to provide an assurance report for one of its major clients over the controls it operates as a service organisation. Can you provide such an assurance report?

Auditor can issue following Type 1 / Type Assurance reports under SAE 3402.

Type 1 report is a report that comprises:
1. The service organization's description of its system.
2. A written assertion by the service organization that, in all material respects, and based on suitable criteria:
2A. Fairness: The description fairly presents the service organization's system as designed and implemented at the specified date.
2B. Suitability: The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date.
3. Report on Findings: A service auditor's assurance report that conveys reasonable assurance about the matters referred to in Q100C.

Type 2 report is a report that comprises:
1. The service organization's description of its system
2. A written assertion by the service organization that, in all material respects, and based on suitable criteria:
2A. Fairness: The description fairly presents the service organization's system as designed and implemented throughout the specified period.
2B. Suitability: The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period and
2C. Effectiveness: The controls related to the control objectives stated in the service organization's description of its system operated effectively throughout the specified period and
3. Report on Findings: A service auditor's assurance report that conveys reasonable assurance about the matters discussed above and includes a description of the tests of controls and the results thereof.

Type 1 Vs Type 2
Type 1 Report Description: Type 1 report is a report on the description and design of controls at a service organization.
Type 2 Report Description: Whereas type 2 report is a report on the description, design and operating effectiveness of controls at a service organization.



QNO 3402.200 Report on Design & Operating Effectiveness of Controls **New Course - (SM23)**
TITANIUM CNO -- 3402.040

Bansil Group is a leading institution running prestigious post graduate courses in the field of management. Its financial statements are audited by an independent auditor. Before the start of this academic session, the Board of the institution had outsourced its entire process of inviting student applications, submission of applications, and collection of application fees including late fees and such matters to Easy Solutions Limited.

The auditors of Bansil Group want to be sure about the design and operating effectiveness of controls at Easy Solutions Limited. What should be the nature of the report to be provided by auditors of Easy Solutions Limited specifically for use by Bansil Group and its auditors in this regard in terms of SA 3402?

SA 3402: Reference to SA 3402, its full name & its applicable in the given scenario.
Concept:
Type 2 report is a report that comprises:
1. The service organization's description of its system
2. A written assertion by the service organization that, in all material respects, and based on suitable criteria:
2A. Fairness: The description fairly presents the service organization's system as designed and implemented throughout the specified period.
2B. Suitability: The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period and
2C. Effectiveness: The controls related to the control objectives stated in the service organization's description of its system operated effectively throughout the specified period and
3. Report on Findings: A service auditor's assurance report that conveys reasonable assurance about the matters discussed above and includes a description of the tests of controls and the results thereof.
Case Discussion: Discuss Case.
Conclusion: Type 2 report is a report on the description, design and operating effectiveness of controls operating at the service organization. Auditors of Easy Solutions Limited should provide such a report giving assurance on these matters. It should also include details of tests of controls performed and details of deviations, if any.

Part 3 SAE 3420

QNO 3420.100 Significance of Pro Forma Financial Information **New Course - (SM23)**
TITANIUM CNO -- 3420.020

Discuss the significance of Pro forma financial information included in prospectus of a company

Answer
What is Pro forma financial information?
Definition of Pro Forma Financial Information: Pro forma financial information refers to financial information shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information as if the event had occurred or the transaction had been undertaken at an earlier date.
Usage in Offer Documents: The Pro forma financial information is, normally, used in the offer documents to illustrate the effect of a transaction on the financial statements of a company as if those transactions had occurred at an earlier date.
Pro Forma B/S and P&L: The Pro forma financial information may take the form of Statement of Profit and Loss and Balance Sheet to illustrate how the transactions might have affected the assets, liabilities and earnings of the issuer. They also include notes in relation to the significant aspects of the transactions, assumptions used to prepare the Pro forma financial information and the adjustments made.
Purpose: The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration.
Not actual Financial Position or performance: Pro forma financial information does not represent the entity's actual financial position, financial performance, or cash flows.

- 1A ✓
- 2A ✓
- 2B ✓
- 2C ✓
- 3 ✓

QNO 3420.200 Engagement Acceptance (Agreement of the Responsible Party) **New Course - (SM23)**
TITANIUM CNO -- 3420.100

The management of S Ltd. requests you to accept an engagement to report on the compilation of pro forma financial information to be included in a prospectus. In light of SAE 3420, what factors you will consider regarding the company acknowledging and understanding its responsibility in this matter before accepting engagement?

Answer
The company's responsibility has to be acknowledged for the following matters:-
(i) Adequately disclosing and describing the applicable criteria to the intended users if these are not publicly available.
(ii) Compiling the pro forma financial information on the basis of the applicable criteria and
(iii) Providing the practitioner with:-
a. Access to all information (including, when needed for purposes of the engagement, information of the acquiree(s) in a business combination), such as records, documentation and other material, relevant to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria
b. Additional information that the practitioner may request from the responsible party for the purpose of the engagement.
c. Access to those within the entity and the entity's advisors from whom the practitioner determines it necessary to obtain evidence relating to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria; and
d. When needed for purposes of the engagement, access to appropriate individuals within the acquiree(s) in a business combination.

QNO 3420.300 Pro forma adjustment **New Course - (SM23)**
TITANIUM CNO -- Unique 3420.120

Discuss the term "Pro forma adjustment" under SAE 3420

Answer
Pro forma adjustments in relation to unadjusted financial information, these include (i) adjustments to unadjusted financial information that illustrate the impact of a significant event or transaction ("event" or "transaction") as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration; and (ii) adjustments to unadjusted financial information that are necessary for the pro forma financial information to be compiled on a basis consistent with the applicable financial reporting framework of the reporting entity ("entity") and its accounting policies under that framework. Pro forma adjustments include the relevant financial information of a business that has been, or is to be, acquired ("acquiree"), or a business that has been, or is to be, divested ("divestee"), to the extent that such information is used in compiling the pro forma financial information ("acquiree" or divestee financial information").