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User responses to CPA reports on forecasts; Technical Research Report 2

John C. Corless

Corine T. Norgaard

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USER RESPONSES TO CPA REPORTS ON FORECASTS

By

John C. Corless and Corine T. Norgaard

University of Connecticut

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Director's Preface

Should an independent public accountant report on a company's published earnings forecast? No single research study can answer that question. The problem has several dimensions and a research study has to focus on one of those dimensions. This technical research report focuses on how users of a CPA's report on an earnings forecast might interpret the CPA's report. Other relevant and related questions such as whether a CPA should be associated with data that are more subjective than historical financial statements and the types and amounts of evidence that would normally be available to support a judgment on a forecast presentation are not considered.

One of the major difficulties in designing research on how users might interpret a CPA's report is selecting subjects that will represent those users. The researchers who conducted this study attempted to select representatives of average users and sophisticated users. Using student subjects as surrogates for average users raises the question of how well students represent the "average" user. The particular students selected in this study were probably more knowledgeable than students that have been used in some prior studies and the researchers' approach represents a better than average solution to a difficult question of research design.

Financial analysts are probably a valid choice for representatives of sophisticated users, but their selection raises another problem. On November 29, 1972, the chairman of the special committee on corporate earnings forecasts of the Financial Analysts Federation testified at public hearings on forecasting held by the

Securities and Exchange Commission. He reported the results of research sponsored by the FAF that indicated the strong opposition of analysts to CPAs reporting on forecasts. As might be expected, the analysts selected by the researchers for this technical research report reconfirmed that opposition. Nevertheless, the views of analysts on different types of reports on forecasts shed some light on the reasons for their attitudes. In general, analysts do not seem to feel that a CPA's report on a forecast would be particularly useful to them in evaluating the shares of publicly traded companies for investment decisions.

Published earnings forecasts by publicly traded companies are not the only forecasts on which CPAs might report. CPAs frequently report on cash forecasts of small to medium size companies submitted for bank loans and projections in tax shelter investment offerings and revenue bond prospectuses. Standards for reviewing and reporting on forecasts need to be developed for that present practice and for the potential practice of reporting on the published forecasts of publicly traded companies. This technical research report should be of assistance in developing those standards. Once standards are developed users of CPAs' reports will exercise the ultimate judgment on the usefulness of those reports.

D. R. Carmichael
Director of Technical Research

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User Responses to CPA Reports on Forecasts

By: John C. Corless and Corine T. Norgaard*

Introduction[1/]

For the first time in its history the Securities and Exchange Commission plans to formally permit companies to include forecast data in their filings. This action occurred after a long debate to determine whether forecasts should become mandatory and is seen by many as the first step toward mandatory disclosure of forecast data. Although the SEC's current position is that no verification by third parties should accompany forecasts, the future role of CPAs with regard to forecast data is unclear. As a consequence, the accounting profession is in a unique position to consider the question of forecasts, to determine whether or not reporting on forecasts would be desirable, and to take whatever steps are necessary to make its position acceptable to the financial world.

The research on which this article is based was designed to help the accounting profession define its role in forecasting by determining how recipients of a CPA's report on forecast data would respond to and interpret such a report. Specifically, the research was concerned with answering the following questions:

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*Ph.D., Assistant Professor of Accounting and Ph.D., CPA, Associate Professor of Accounting, respectively.

1/ The authors wish to gratefully acknowledge the financial support provided for this project by the Technical Research Division of the AICPA. In addition, they wish to thank D. R. Carmichael, Director of Technical Research, for his many helpful suggestions.

1. How does the report of a CPA affect the user's confidence in the reliability of forecast data?

2. What role do users of forecast data assume the CPA plays when he reports on such data?

3. What should the CPA's legal liability be when he reports on forecasts?

4. What are the perceived effects on the CPA's independence when he reports on forecasts?

5. Would a change in the style of the CPA's forecast report affect the responses to questions 1-4?

6. Would different types of users of the CPA's forecast report respond differently to questions 1-4?

Research Method

A recent article reported the results of a survey of attitudes of CFAs, CPAs, and FEI members toward CPA reports on forecasts.[2/] The research on which this article is based went a step further by casting research participants in the role of *users* of a CPA's report on forecast data. Participants in the study were of two types: financial analysts who were assumed to represent the more sophisticated user of forecast information, and MBA students who were assumed to represent the less sophisticated user.

A questionnaire was mailed to 750 financial analysts who had been randomly selected from the membership of the Financial Analysts Federation in Boston, Massachusetts, and New York City. From this group, 264 (35%) usable responses were received.

2/ Richard J. Asebrook and D. R. Carmichael, "Reporting on Forecasts: A Survey of Attitudes," *Journal of Accountancy*, August, 1973.

Another 25 analysts were randomly selected from the membership of the Financial Analysts Federation in Hartford, Connecticut. These two groups were interviewed and given the questionnaire. The questionnaire was also administered to 80 MBA students enrolled in the evening program of the University of Connecticut. These were not typical students in that all had business experience which ranged from 1 to 30 years and all were currently employed on a full-time basis. This particular group was chosen because these students were expected to have some appreciation of the role of the CPA; yet they were assumed to be less sophisticated in the interpretation of financial data than were the analysts.[3/]

Each questionnaire contained one of the following types of reports which a CPA might make on forecast data: (a) a report giving negative assurance with respect to the underlying assumptions, (b) a report giving positive assurance with respect to the assumptions, and (c) a third style similar to that used in the United Kingdom. The exact wording of each of these reports was as follows:[4/]

<u>English Style</u>

> We have reviewed the accounting bases and calculations for the projected statement of operations of the XYZ Company for the year ended December 31, 1972 (for which the management is solely responsible). The forecasts include results shown by unaudited interim

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3/ None of these students had extensive experience in the preparation or analysis of financial statements.

4/ These report styles were developed by D. R. Carmichael, Director of Technical Research, AICPA.

accounts for the period ended December 31, 1972. In our opinion, the forecasts, so far as the accounting bases and calculations are concerned, have been properly compiled on the basis of the assumptions made by management and are presented on a basis consistent with the accounting practices normally adopted by the company.

Positive Assurance

We have studied the projected statement of operations of the XYZ Company for the year ended December 31, 1972. Our study was conducted in accordance with applicable standards published by the American Institute of Certified Public Accountants. We performed such tests and procedures with respect to the compilation of the forecast from the stated assumptions as we considered necessary in the circumstances. However, assumptions as to future events must remain the sole responsibility of management. Our procedures with respect thereto were generally limited to those which accountants might reasonably employ and were chosen in order to appraise the care and consideration given to the selection of assumptions by management.

On the basis of our study, we believe that the projected statement of operations gives effect to the assumptions described on the basis of accounting principles regularly employed by the company. We believe that management has chosen the assumptions with due care and consideration. We express no opinion as to whether the projected statement may approximate actual future results.

Negative Assurance

We have studied the projected statement of operations of the XYZ Company for the year ended December 31, 1972. Our study was conducted in accordance with applicable standards published by the American Institute of Certified Public Accountants. We performed such tests and procedures with respect to the compilation of the forecast from the stated assumptions as we considered necessary in the circumstances. However, assumptions as to future events must remain the sole responsibility of management. Our procedures with respect thereto were

> generally limited to those which accountants might reasonably employ and were chosen in order to appraise the care and consideration given to the selections by management.
>
> On the basis of our study, we believe that the accompanying projected statement properly gives effect to the assumptions described, using generally accepted accounting principles. Further, nothing came to our attention as a result of our study that caused us to believe that such assumptions, which have been selected by management, do not constitute reasonable bases for the preparation of the estimates in the projected statements of operations. Since projections are predicated on the occurrence of future events which are subject to changes in economic and other circumstances, we express no opinion on the likelihood of their achievement.

After studying the CPA's report he had received, each research subject answered a set of questions designed to describe: (1) the effects of the CPA's report on the user's confidence in the forecast data which it accompanies, (2) the user's interpretation of the role which the CPA played in generating the forecast and the responsibility he is assuming when he reports on it, (3) the liability which should be attributed to the CPA in conjunction with his report on the forecast data, and (4) the perceived effects on the CPA's independence when he reports on forecasts.

The responses to the questions are analyzed in the following sections. Except as indicated, differences between responses given by recipients of different report styles and differences between responses of analysts and those of MBA students were generally insignificant.[5/]

5/ To determine whether different responses to different style reports were statistically significant and whether the responses of the analysts were significantly different from those of students, Chi Square tests were made. All differences whose Chi Square value had a significance level of .05 or less have been described in this report.

Effects on the User's Confidence

To investigate how a CPA's report on forecast data would affect the confidence of users in that data, respondents were asked to compare a forecast accompanied by a CPA's report with (a) a forecast not accompanied by a CPA's report, and (b) a forecast generated by a financial analyst. Participants could indicate that they had:

1. less confidence in the forecast accompanied by the CPA's report;
2. about the same level of confidence in the forecast accompanied by the CPA's report;
3. slightly more confidence in the forecast accompanied by the CPA's report;
4. much greater confidence in the forecast accompanied by the CPA's report.

A summary of responses given in making these comparisons appears in Table I. In comparing a forecast accompanied by a CPA's report with one not accompanied by such a report, the effect on the user's confidence tended to be slight, with 86% of the respondents indicating that they had either equal confidence in both forecasts or slightly greater confidence in the forecast on which the CPA reported. Only 9% had their confidence greatly increased by the CPA's report.

TABLE I
Users' Confidence In Forecast On Which The CPA Reported

Confidence in Forecast on which CPA Reported	Compared with a Forecast	
	Not Accompanied by a CPA's Report	Prepared by Financial Analysts
Less confidence	4.9%	18.1%
Equal confidence	36.8	39.6
Slightly more confidence	49.2	34.1
Much greater confidence	9.1	8.2

Similar results were obtained when users were asked to compare their confidence in a forecast accompanied by a CPA's report with that in a forecast generated by a financial analyst. Few had their confidence greatly increased by the presence of the CPA's report. Most (73.7%) again had either equal confidence or only slightly more confidence in the forecast on which the CPA reported.

In addition to the comparisons described above, research subjects were asked to compare their confidence in forecasts accompanied by a CPA's report with that in audited financial statements. The results of this comparison are summarized in Table II. As would be expected, a majority (77%) of the partici-

TABLE II

Forecast Compared With Audited Financial Statements

Confidence in Forecast on which CPA Reported	MBA Students	Analysts	All Respondents
Equal confidence	26.3%	10.9%	14.2%
Almost as much confidence	16.2	6.7	8.8
Less confidence	41.2	33.0	34.8
Much less confidence	16.3	46.7	40.0
No confidence	0	2.7	2.2

pants indicated they had "less," "much less" or "no" confidence in the forecast data. In analyzing the responses of the remaining 23%, an interesting difference between analysts and MBA students was noted. Of the student group, 42.5% indicated equal or almost as much confidence in the reliability of the forecast data as in audited financial statements, while only 17.6% of the analysts made these responses. Our research does not enable us to offer a definitive explanation for this difference; there are several equally credible explanations. First, the greater confidence of the student group may indicate that the less sophisticated user is more likely to confuse a CPA's report on forecast data with an attest to financial statements. On the other hand, the student group may be indicating a lack of confidence in audited financial statements. In the graduate business program, some emphasis is placed on the shortcomings of financial statements and the student is exposed to criticisms of the way in which the audit function is performed. Finally, the student may be less familiar with both forecasts and financial statements than financial analysts. Thus, his inability to differentiate between the CPA's report on a forecast and his opinion on historical financial statements may be a result of confusion regarding the basic nature of these two types of data. During interviews, several analysts also expressed the view that "less sophisticated investors" would erroneously attribute too much reliability and certainty to forecast data simply because it appears in printed form irrespective of what the CPA might say in a report which accompanies the forecast.

All participants who did not indicate that they had equal confidence in the historical statements and forecast data were asked to indicate the reasons for their lack of confidence in the latter. The reason for lack of confidence most often given (74.8% of all respondents) was that forecasts are tentative in nature whereas the financial statements are based on events that have actually happened. This suggests that even if CPAs do report on a forecast, the major source of concern in the minds of users regarding the reliability of forecast data will still remain. In support of this point, several analysts commented during interviews that in judging the reliability of forecast data, the nature of the company itself, its industry, and the period covered by the forecast are much more important than the presence or absence of the CPA's report.[6/]

Collaborating the data obtained from the questionnaires, the analysts interviewed generally indicated that the CPA's report would contribute only slightly to their confidence in forecast data. Several analysts expressed the view that accountants were not competent to review forecast data, especially the underlying assumptions. They did, however, note that CPAs could verify the computational accuracy.

In terms of positive benefits which would arise if the CPA reported on forecast data, several analysts mentioned that companies would be more careful in preparing forecasts if they knew a CPA would be reviewing them. In addition, the CPA might be able to offset any optimistic or pessimistic biases which management might consciously or unconsciously build into its forecast.

6/ Additional evidence of the users intense concern with these other factors was found during two pilot studies. In these studies research subjects were given financial statements of a company and background data regarding the company making the forecast on which the CPA was reporting. The research subjects were so preoccupied with trying to make their own projections from the data provided that they gave little attention to the presence or absence of a CPA's report or what that report said.

In summary, responses to the questionnaire and comments made during interviews indicate that the increase in confidence in forecast data which can be related to the presence of a CPA's report is slight. The CPA's report cannot at present offset the user's concern about such factors as the type of company making the forecast, its history, the industry of which it is a part, and the tentative nature of forecast data. Thus, the user's lack of confidence appears to reflect a lack of faith in forecasts rather than in the CPA.

The CPA's Role

A series of questions included in the questionnaire were designed to determine how users would interpret the role which the CPA played in generating and reporting on forecast data.

Responsibility for Underlying Assumptions. Respondents were first asked who made the assumptions underlying the forecast. Eighty-three percent of all respondents stated that the assumptions underlying the forecast were those of management; less than 1% said they were those of the CPA firm which reported on the forecasts. (It should be noted that in terms of numerical results, none of the analysts thought the CPA had made the assumptions on which the forecast was based and only 3 students gave this response.) Six percent thought both management and the CPA were responsible for the assumptions[7/] while another 10% stated that they could not determine who made the assumptions.

7/ In interviews with analysts, several noted that the intimacy with which the CPA was involving in the forecast could be expected to vary greatly depending on the relationship between the company making the forecast and its CPA firm and the expertise available within the company to prepare forecasts.

<u>Review of the Underlying Assumptions</u>. Most users thought the assumptions underlying the forecast were made by management, but a large number (76.6%) thought that the CPA had reviewed the assumptions underlying the forecasts. Table III summarizes the responses regarding the CPA's perceived role in reviewing the assumptions. A significantly greater[8/] proportion of the recipients of the U. K. style report did not assume the CPA had reviewed the assumptions than did recipients of the other two report styles. This result is to be expected because in the U. K. style report the CPA states that "management is solely responsible" for the assumptions. However, it is interesting to note that a majority of the recipients of the U. K. style report did assume the CPA had reviewed the assumptions. These results suggest that a CPA may not be able to report on forecasts without many users assuming that he reviewed the underlying assumptions, even when his report disclaims responsibility for them.

Although the preceding data indicate that users of forecasts would expect the CPA to review the assumptions if he is reporting on a forecast, interviews with analysts suggest that they would not place great reliance on this review. As previously discussed, some analysts were skeptical of the ability of the CPA to make a meaningful evaluation of the reasonableness of the underlying assumptions. Also, all the analysts interviewed agreed

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8/ The Chi Square value for this comparison was significant at the .01 level.

TABLE III

Review of Underlying Assumptions

Type of CPA's Report Response	U. K Style	Positive Assurance	Negative Assurance	All Report Styles
CPA did not review assumptions:				
(a) Ignored assumptions	6.4%	0%	0%	2.0%
(b) Read assumptions but made no judgment	36.4	11.8	17.6	21.4
Total	42.8	11.8	17.6	23.4
CPA reviewed assumptions:				
(c) Made a cursory review for inconsistencies	27.2	37.0	37.0	33.9
(d) Made a thorough review	30.0	50.3	45.4	42.4
(e) Reviewed and approved the assumptions	0	.9	0	.3
Total	57.2	88.2	82.4	76.6

strongly that they would much rather know what assumptions were used in making a forecast than have a CPA's report stating the assumptions were reasonable.

Verification of historical data, appropriateness of statistical techniques and accuracy of the computations. The participants were asked whether the CPA had verified the historical data which was used in making the forecast which his report accompanied, verified the appropriateness of the statistical techniques which were used or verified the accuracy of the computations inherent in the forecast. The responses to these questions are summarized in Table IV.

Responses indicate that slightly more than half (51.7%) of the participants could not determine whether the historical data had been verified. Sixteen percent said that the auditor had not verified the data while 32.2% thought that the CPA had made such a verification. The responses of the analysts appear to be similarly distributed for all the styles of CPA reports, but the MBA students' responses were different for the different types of reports. Among the student recipients of the U. K. style report, 52.0% of the students indicated they thought the CPA had verified the historical data while 43.3% of those receiving the negative assurance report gave this response and 25% of the recipients of the positive assurance report. It is not clear why a higher proportion of the MBA students receiving the U. K. style report would assume the CPA had verified the historical data which was used in making the forecast. One possible explanation is the reference to consistency in this style of report.

TABLE IV

Responsibilities Assumed by the CPA--In Percents

Type of CPA's Report / Assumed Responsibilities	U. K. Style			Positive Assurance			Negative Assurance		
	Yes	No	Cannot Determine	Yes	No	Cannot Determine	Yes	No	Cannot Determine
Verified Historical Data Underlying Forecast	36.8	21.6	41.3	26.2	22.3	51.5	34.5	12.1	53.4
Verified the Appropriateness of the Statistical Techniques	15.7	40.0	44.3	23.1	23.1	53.8	27.4	26.5	46.1
Verified the Accuracy of Computations	78.3	2.6	19.1	57.7	13.1	29.2	59.0	9.4	31.6
Attested to the Accuracy of the Forecast	2.6	90.4	7.0	4.7	90.6	4.7	8.5	85.5	6.0

There appears to be a great deal of uncertainty in the minds of the respondents as to whether or not the CPA had verified the appropriateness of the statistical methods used in generating the forecast. Almost half (48.3%) of all respondents indicated they could not determine whether such a verification had taken place, while 22.1% indicated that they thought it had and 29.6% thought that it had not. Among the analysts there was a significant difference between the responses of those receiving the U. K. style report and those receiving the other two types of reports; among recipients of the U. K. style report, 12.4% thought the auditor had verified the appropriateness of the statistical techniques, while for the other two styles 19.8% (positive assurance) and 23.0% (negative assurance) thought such a verification had been made.

A majority of report users indicated that the CPA had verified the computations inherent in the forecast. Only 8.6% indicated that such a verification had not been made, while 64.6% thought that it had and the other 26.8% said that they could not tell. As would be expected, recipients of the U. K. style report were most likely to think the CPA verified the computations, but even among this group, 19.1% could not tell. This suggests that even when the role of the CPA is explicitly spelled out there will still be some users who misinterpret his report, since the U. K. style explicitly mentions verification of computations. It is also possible that some users share the philosophy of one analyst who commented in an interview that, "The CPA's report always has the same standard wording, so I never read it—I just see who signed it."

Attestation to Accuracy of the Forecast. Finally, the research subject was asked whether the CPA had attested to the accuracy of the forecast. Only 5.3% of the participants said that they thought such an attestation (Table IV) had been made while 89.2% said that it had not. The remaining 5.6% stated that they could not determine one way or the other. This finding suggests that relatively few users will assume that the CPA has attested to the accuracy of forecast data in the same way which he attests to the fair presentation of historical data. Although slightly more of the recipients of the negative assurance report and student recipients of the positive assurance report indicated they thought the CPA had attested to the accuracy of the forecast than did other participants, the number of these responses was so small that it is difficult to attribute any significance to them.

In summary, it appears that the users of CPA reports on forecasts assume, regardless of the wording of the forecast report, that the CPA has reviewed the assumptions and verified the accuracy of the computations inherent in the forecasts. In addition, a significant number of respondents assumed that he verified the underlying historical data and the appropriateness of the statistical techniques used in making the forecast.

It is important to note that even though this research study specifically focused the attention of the reader on the CPA's report, there was still confusion as to what role the CPA is assuming. With respect to the latter point, although a significant number of respondents reported that the CPA had verified the underlying historical data and the appropriateness of the statistical techniques used, an even larger number were confused as to whether or not the CPA was reporting that he had performed these two services. Of the three report styles tested, users appeared to have less uncertainty regarding the role of the CPA when the U. K. style report, with its relatively straightforward wording, was used.

It appears that the report styles tested did not clearly communicate to the reader the role which the CPA plays in generating forecast data and the extent of the responsibilities which he is assuming. It is suggested that if CPAs are to be associated with forecasts, they should be careful to specifically state their role and the responsibilities they are assuming.

Legal Liability

The responses to the questionnaire and comments made by analysts during interviews suggest that most users of financial data would prefer that legal responsibility for forecasts be limited.[9/] In the questions regarding legal responsibility, a distinction was made between situations in which unexpected events beyond the control of management had or had not occurred during the period covered by the forecast.

Assuming unexpected events beyond the control of management had occurred during the forecast period, an overwhelming majority

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9/ This is consistent with the research findings of a research study sponsored by the Financial Analysts Federation in which it was reported that: "Respondents believe that there should be no legal sanctions for forecasting errors; they believe that the market will serve as an effective policeman." See Samuel S. Stewart, Jr., "Research Report on Corporate Forecasts," Financial Analysts Journal, January-February, 1973, p. 84.

of the participants (97%) indicated no one should be held responsible if actual operations vary materially from the forecast data. Similar results were obtained in the pilot studies.

Even when no unexpected events beyond the control of management occurred during the forecast period, a large majority of users (79%) said no one should be held legally responsible if the results of actual operations vary materially from the forecast data! Among the other 21% of the users, 46.8% (or 10.1% of all participants) thought that only management should be held responsible, 11.7% (or 2.5% of all participants) thought that only the CPA should be held responsible, and 40.3% (or 8.7% of all participants) thought that both the CPA and management should be held responsible. Among the participants who felt there should be some legal liability associated with forecasts, very few would indicate by what amount actual data must vary from forecast data before legal liability should be involved, commenting that this amount would vary among different industries and different circumstances. A slightly greater proportion of the recipients of the U. K. style report (especially the student recipients) would want to hold someone legally responsible, but these users would also be more likely to limit that legal responsibility to management.

Comments made by analysts during interviews and comments written on the questionnaire suggest that users would prefer to have a legal environment where the management of companies could disclose honest forecasts rather than pessimistic forecasts. These analysts were greatly concerned that management's fear of being sued if actual profits are less than forecast profits could cause published forecasts to be so conservative as to be meaningless. Several analysts said that there should be legal liability associated with forecasts only in cases of fraud and deceit.

Our research was not directed to what legal liability is presently associated with published forecast data; rather it suggests the desirability of <u>creating</u> a legal environment wherein those who publish forecast data could concentrate on making the best possible forecast rather than concentrating on how to minimize the likelihood of a lawsuit arising from the publication of the forecast data.

Analysts commented that they would probably be more sympathetic to both management and the CPA in terms of liability than the less sophisticated user of forecasts might be. These comments were based on their assumption that analysts as a group are more cognizant of the difficulties inherent in preparing forecasts whereas the general public might expect a much higher degree of accuracy in published forecast information.

The CPA's Independence

The final question of the study represented an attempt to determine whether research subjects thought a CPA's independence would be adversely affected by reporting on forecast data. When asked how independent and objective a CPA would be in reviewing year-end adjustments which management might wish to make in an attempt to show actual results which are consistent with previously issued forecast data on which the CPA had reported, 24.2% of the respondents said the CPA would remain objective and independent.

On the other hand, 52.5% said the CPA would feel some pressure to permit the adjustment, 18.6% thought the CPA would feel great pressure and 3.3% said the auditor would suggest or even insist that the adjustment be made. Some slight differences in responses of analysts and students to this question were noted. Responses of the analysts suggest that a CPA's ability to remain independent would seem less questionable with the U. K. style report, whereas among students it would appear that just the opposite would be the case. Although the reason for this difference is not clear, it may be that the students are not as aware as analysts that forecast figures are so closely related to the underlying assumptions (to which the CPA clearly does not attest with the U. K. style report).

While the responses to this question suggest that there is some concern over the possible effect reporting on forecasts might have on the CPA's objectivity and independence, it is not clear how serious this concern is in the minds of users. Comments made by analysts during interviews suggest that this concern varies greatly. Among the analysts interviewed, slightly more than half said that the CPA's independence would be impaired slightly, and a few said that there would be no problem.

On the other hand, some analysts did express great concern regarding the loss of independence by the CPA if he reports on forecasts. One analyst said that if the CPA were to review the assumptions to see that they were reasonably consistent with the company's personnel, facilities, past operating performance, etc., the CPA would have "to be in bed with management." He also indicated that in his opinion, having CPAs attest to forecasts "would be like having a referee in a football game predicting the final score before the game begins." Another analyst stated that even without client pressure, the CPA would already be subconsciously committed to a forecast on which he had previously reported. This subconscious commitment to a forecast along with client pressure would be like a double-edged sword cutting away at the CPA's independence.

In summary it appears that there is slight concern on the part of most users of forecast information with regard to the independence of the CPA who reports on that data. The degree of concern among different users varies widely, but it appears that most users believe the CPA's independence would not be significantly diminished if he made such a report.

Other Comments. Views expressed by the analysts during interviews regarding the desirability of having CPAs report on forecasts were varied. A few analysts had strong feelings on this subject and made statements such as "an attest should be required if forecasts are to be published" or "auditors have no business getting involved with forecasts." Most analysts, however, had no strong feelings or were undecided as to whether CPA reports on forecasts would be desirable.

Among the disadvantages of having CPAs report on forecasts, analysts mentioned the cost of doing so, and the possibility of impairing the CPA's independence. Some analysts thought that companies might be more hesitant to publish revisions to forecast if each revision had to be reviewed by a CPA, and that the reviewing process would slow up the publication of all forecasts. A few analysts said that a company's own track record would provide management with more incentive to do a good job of forecasting than would the CPA's review; as one analyst said, "Companies will realize that they can't fool analysts and the public very long; therefore, management will be careful in making forecasts." A few analysts mentioned that CPAs could develop a bad name if forecasts with which their name are associated are consistently off.

Summary and Conclusions

Our research suggests that the presence of a CPA's report would increase only slightly the user's confidence in forecast data. The CPA's report cannot offset the user's overriding concern regarding the tentative nature of forecast data and/or his personal perceptions regarding the future of the company making the forecast.

If reports on forecasts are made by CPAs, the report style should very clearly communicate the role played by the CPA in generating and reporting on the forecast. Our research indicates that regardless of what the forecast report says, the user tends to assume that the CPA has at least reviewed the assumptions on which the forecast is based and verified the computations inherent in the forecast. If the accounting profession decides to become involved in reporting on forecast data to third parties, it should be willing to assume these responsibilities. Unless more clearly stated than in the report styles tested, users may feel confused as to whether the CPA has verified the historical data inherent in the forecast and/or the appropriateness of the statistical techniques used.

While legal liability cannot be abolished for the CPA when he associates his name with a forecast, users would like to see a legal environment created which would encourage the publication of forecast data which has been as accurately determined as possible. Liability should be an obvious outcome of material variances between actual and forecasted results only when deceit and fraud are inherent in the generation of or reporting on forecast data.

There is slight concern on the part of most users of forecast information with regard to the independence of the CPA who reports on that data. However, only a few users believe the CPA's independence would be significantly diminished if he made such reports.

In most cases, differences among the report styles tested did not appear to have a significant impact on the user's confidence in forecast data, in his perception of the CPA's liability with regard to forecast data, or in his perception of the CPA's independence. In determining what role the CPA played in generating the forecast and the responsibility he was assuming for that data, significant differences did tend to appear between responses of those receiving negative assurance and positive assurance style reports in comparison with those receiving the U. K. style report.

There were few significant differences between the responses of the different user groups who participated in the study. One interesting difference was that less sophisticated users tended to express more confidence in the reliability of forecast data (when compared to audited financial statement data) than did more sophisticated users. This difference could be due to a number of different factors including inability of the less sophisticated user to distinquish between an attest to financial statements and the CPA's report on forecast data; a lack of confidence in audited financial statements; or a basic lack of understanding regarding the nature of financial statements and financial forecasts. Additional research would be required to determine which, if any, of these explanations accounts for the difference in responses.

Recommendation

In conclusion, our research did not demonstrate that any of the report styles tested was clearly superior to the others. If forced to select our preference among the report styles tested, we would give a qualified recommendation that the U. K. style report be used if CPAs are to report on forecast data. The role of the CPA and the responsibilities he is assuming were somewhat more clearly understood by recipients of the U. K. style report than by recipients of the other report styles tested.

Our qualification in recommending the U. K. style report is due to the expectation of a majority of the recipients of this report that the CPA has made some kind of review of the assumptions. This indicates that the user of a CPA's report on forecast data is not willing to relieve the CPA of the responsibility of reviewing the assumptions underlying the forecast. It may be that a reporting style can be developed which more clearly communicates the role of the CPA in reviewing the assumptions than did any of the report styles tested in our research. We think efforts to develop such a reporting style should be encouraged.

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