Engagements to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement; Statement on auditing standards, 075

American Institute of Certified Public Accountants. Auditing Standards Board

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Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement

(Supersedes Statement on Auditing Standards No. 35, AICPA, Professional Standards, vol. 1, AU sec. 622.)

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Introduction and Applicability

1. This Statement sets forth standards and provides guidance to an accountant concerning performance and reporting in all engagements to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement, except as noted in paragraph 2.

2. This Statement does not apply to —

   a. Situations in which an accountant reports on an engagement to apply agreed-upon procedures to other than specified elements, accounts, or items of a financial statement pursuant to Statement on Standards for Attestation Engagements (SSAE) No. 4, Agreed-Upon Procedures Engagements (AICPA, Professional Standards, vol. 1, AT sec. 600).

   b. Situations in which an accountant reports on specified compliance requirements based solely on an audit of financial statements, as addressed in paragraphs 19 through 21 of Statement on Auditing Standards (SAS) No. 62, Special Reports (AICPA, Professional Standards, vol. 1, AU sec. 623).

   c. Engagements for which the objective is to report in accordance with SAS No. 74, Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance (AICPA, Professional Standards, vol. 1, AU sec. 801).

For purposes of this Statement, the term accountant refers to a person possessing the professional qualifications required to practice as an independent auditor. See SAS No. 1, Codification of Auditing Standards and Procedures (AICPA, Professional Standards, vol. 1, AU sec. 110.03, “Responsibilities and Functions of the Independent Auditor”). An accountant performing an engagement to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement is not required to be the auditor of the financial statements to which the specified elements, accounts, or items relate. Throughout this Statement, the term auditor may be used interchangeably with the term accountant.

The Attest Interpretation Responding to Requests on Matters Relating to Solvency (AICPA, Professional Standards, vol. 1, AT sec. 9100.33-.44) prohibits the accountant’s report on agreed-upon procedures from providing any assurances on matters relating to solvency or any financial presentation of matters relating to solvency.

When engaged to perform agreed-upon procedures on prospective financial information, the accountant should follow the guidance in SSAE No. 1, Attestation Standards (AICPA, Professional Standards, vol. 1, AT sec. 200, “Financial Forecasts and Projections”), and SSAE No. 4, Agreed-Upon Procedures Engagements (AICPA, Professional Standards, vol. 1, AT sec. 600).

The accountant may issue combined reports on engagements to apply agreed-upon procedures pursuant to paragraph 47 of this Statement and paragraph 48 of SSAE No. 4.
d. Circumstances covered by paragraph 58 of SAS No. 70, *Reports on the Processing of Transactions by Service Organizations* (AICPA, *Professional Standards*, vol. 1, AU sec. 324), when the service auditor is requested to apply substantive procedures to user transactions or assets at the service organization and he or she makes specific reference in his or her service auditor’s report to having carried out designated procedures. (However, this Statement would apply when the service auditor provides a separate report on the performance of applying agreed-upon procedures to specified elements, accounts, or items of a financial statement.)


### Engagements to Apply Agreed-Upon Procedures

3. An engagement to apply agreed-upon procedures is one in which an accountant is engaged by a client to issue a report of findings based on specific procedures performed on the specific subject matter of specified elements, accounts, or items of a financial statement, as defined in paragraph 6 of this Statement. The client engages the accountant to assist users in evaluating specified elements, accounts, or items of a financial statement as a result of a need or needs of the users of the report. Because users require that findings be independently derived, the services of an accountant are obtained to perform procedures and report his or her findings. The users and the accountant agree upon the procedures to be performed by the accountant that the users believe are appropriate. Because users’ needs may vary widely, the nature, timing, and extent of the agreed-upon procedures may vary as well; consequently, the users assume responsibility for the sufficiency of the procedures since they best understand their own needs. In an engagement performed under this Statement, the accountant does not perform an audit and does not provide an opinion or negative assurance (see

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paragraph 26 of this Statement) relating to the fair presentation of the specified elements, accounts, or items of a financial statement. Instead, the accountant's report on agreed-upon procedures should be in the form of procedures and findings. (See paragraph 33 of this Statement.)

4. As a consequence of the users' role in agreeing upon the procedures performed or to be performed, an accountant's report on such engagements should clearly indicate that its use is restricted to those users. Those users, including the client, are hereinafter referred to as specified users.

Applicability of Generally Accepted Auditing Standards

5. The general standards (adequate technical training and proficiency, independence, due care) and the first standard of fieldwork (planning and supervision) should be followed by an accountant in an engagement to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement. The accountant also should follow the interpretative guidance relating to the application of the third standard of fieldwork, and also should follow the reporting standards as addressed in this Statement.6

Specified Elements, Accounts, or Items of a Financial Statement and Related Subject Matter

6. Specified elements, accounts, or items of a financial statement refers to accounting information that is a part of, but significantly less than, a financial statement. Specified elements, accounts, or items of a financial statement may be directly identified in a financial statement or notes thereto; or they may be derived therefrom by analysis, aggregation,

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6 In an engagement to apply agreed-upon procedures, an accountant is not obligated to follow any standards that would apply in an audit of financial statements or of specified elements, accounts, or items thereof other than the standards and interpretative guidance contained in or referred to in this Statement.
summarization, or mathematical computation. Specified elements, accounts, or items of a financial statement contain assertions that are embodied in financial statements. These assertions can be either implicit or explicit. An identified basis of accounting for a specified element, account, or item of a financial statement defines the particular aspects of those assertions applicable in a given circumstance, such as when the basis of accounting is generally accepted accounting principles. In an engagement to apply agreed-upon procedures, it is the subject matter underlying the assertions to which the accountant's procedures are applied (referred to in this Statement as specific subject matter). The procedures enumerated or referred to in the accountant's report generally recite the criteria against which the specific subject matter is to be measured in deriving a finding.

7. The specified element, account, or item of a financial statement may be presented in a schedule or statement, or in the accountant's report, appropriately identifying what is being presented and the point in time or the period of time covered. A specified element, account, or item of a financial statement also may be identified in accounting records (for example, a general ledger account or a computer printout) maintained for preparation of financial statements.

8. Examples of specified elements, accounts, and items of a financial statement include—

- The cash accounts, as of a certain date, included in an entity's general ledger maintained for the purpose of preparing financial statements represented as being in accordance with generally accepted accounting principles.
- A schedule of accounts receivable of an entity, as of a certain date, that reflects the accounts receivable presented in conformity with generally accepted accounting principles.

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7 Accounting information generally is expressed in monetary amounts (or percentages derived from such monetary amounts), but it also may include quantitative information derived from accounting records that is not expressed in monetary terms.

8 The term financial statement refers to a presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time. In this Statement, the term includes any financial statements that are prepared either in accordance with generally accepted accounting principles or in conformity with an other comprehensive basis of accounting. See SAS No. 62, AU sec. 623.02. The term also includes special-purpose financial presentations to comply with contractual agreements or regulatory provisions as discussed in SAS No. 62 (AU sec. 623.22–30).
• The amounts included in the caption "property and equipment" identified in a Statement of Assets, Liabilities, and Capital, as of a certain date, presented on an income-tax basis.
• The gross income component of a Statement of Operations for a period of time presented in accordance with the rules of a regulatory agency.

**Conditions for Engagement Performance**

9. The accountant may perform an engagement under this Statement provided that—
   
a. The accountant is *independent*.
   
b. The accountant and the specified users agree upon the procedures performed or to be performed by the accountant.
   
c. The specified users take responsibility for the sufficiency of the agreed-upon procedures for their purposes.
   
d. The procedures to be performed are expected to result in reasonably consistent findings.
   
e. The basis of accounting of the specified elements, accounts, or items of a financial statement is clearly evident to the specified users and the accountant.
   
f. The specific subject matter to which the procedures are to be applied is subject to reasonably consistent estimation or measurement.
   
g. Evidential matter related to the specific subject matter to which the procedures are applied is expected to exist to provide a reasonable basis for expressing the findings in the accountant's report.
   
h. Where applicable, the accountant and the specified users agree on any materiality limits for reporting purposes. (See paragraph 27 of this Statement.)
   
i. Use of the report is restricted to the specified users.⁹

**Agreement on and Sufficiency of Procedures**

10. To satisfy the requirements that the accountant and the specified users agree upon the procedures performed or to be performed and that

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⁹ An accountant may perform an engagement pursuant to which his or her report will be a matter of public record. (See paragraph 33 of this Statement.)
the specified users take responsibility for the sufficiency of the agreed-upon procedures for their purposes, ordinarily the accountant should communicate directly with and obtain affirmative acknowledgment from each of the specified users. For example, this may be accomplished by meeting with the specified users or by distributing a draft of the anticipated report or a copy of an engagement letter to the specified users and obtaining their agreement. If the accountant is not able to communicate directly with all of the specified users, the accountant may satisfy these requirements by applying any one or more of the following or similar procedures:

- Compare the procedures to be applied to written requirements of the specified users.
- Discuss the procedures to be applied with appropriate representatives of the specified users involved.
- Review relevant contracts with or correspondence from the specified users.

The accountant should not report on an engagement when specified users do not agree upon the procedures performed or to be performed and do not take responsibility for the sufficiency of the procedures for their purposes. (See paragraph 38 of this Statement for guidance on satisfying these requirements when the accountant is requested to add parties as specified users after the date of completion of the agreed-upon procedures.)

**Engagement Letters**

11. The accountant should establish a clear understanding regarding the terms of engagement, preferably in an engagement letter. Engagement letters should be addressed to the client, and in some circumstances also to all specified users. Matters that might be included in such an engagement letter follow:

- Nature of the engagement
- Identification of or reference to the specified elements, accounts, or items of a financial statement and the party responsible for them
- Identification of specified users (see paragraph 38 of this Statement)
- Specified users' acknowledgment of their responsibility for the sufficiency of the procedures
• Responsibilities of the accountant (see paragraphs 13 through 15 and 41 of this Statement)
• Basis of accounting of the specified elements, accounts, or items of a financial statement
• Reference to applicable AICPA standards
• Agreement on procedures by enumerating (or referring to) the procedures (see paragraphs 16 through 19 of this Statement)
• Disclaimers expected to be included in the accountant’s report
• Use restrictions
• Assistance to be provided to the accountant (see paragraph 24 of this Statement)
• Involvement of a specialist (see paragraphs 21 through 23 of this Statement)
• Agreed-upon materiality limits (see paragraph 27 of this Statement)

Nature, Timing, and Extent of Procedures

Users’ Responsibility

12. Specified users are responsible for the sufficiency (nature, timing, and extent) of the agreed-upon procedures, because they best understand their own needs. The specified users assume the risk that such procedures might be insufficient for their purposes. In addition, the specified users assume the risk that they might misunderstand or otherwise inappropriately use findings properly reported by the accountant.

Accountant’s Responsibility

13. The responsibility of the accountant is to carry out the procedures and report the findings in accordance with the applicable general, fieldwork, and reporting standards as discussed and interpreted in this Statement. The accountant assumes the risk that misapplication of the procedures may result in inappropriate findings being reported. Furthermore, the accountant assumes the risk that appropriate findings may not be reported or may be reported inaccurately. The accountant’s risks can be reduced through adequate planning and supervision and due professional care in performing the procedures, determining the findings, and preparing the report.
14. The accountant should have adequate knowledge in the specific subject matter of the specified elements, accounts, or items of a financial statement, including the basis of accounting. He or she may obtain such knowledge through formal or continuing education, practical experience, or consultation with others.

15. The accountant has no responsibility to determine the differences between the agreed-upon procedures to be performed and the procedures that the accountant would have determined to be necessary had he or she been engaged to perform another form of engagement. The procedures that the accountant agrees to perform pursuant to an engagement to apply agreed-upon procedures may be more or less extensive than the procedures that the accountant would determine to be necessary had he or she been engaged to perform another form of engagement.

Procedures to Be Performed

16. The procedures that the accountant and specified users agree upon may be as limited or as extensive as the specified users desire. However, mere reading of an assertion or specified information does not constitute a procedure sufficient to permit an accountant to report on the results of applying agreed-upon procedures. In some circumstances, the procedures agreed upon evolve or are modified over the course of the engagement. In general, there is flexibility in determining the procedures as long as the specified users acknowledge responsibility for the sufficiency of such procedures for their purposes. Matters that would be agreed upon include the nature, timing, and extent of the procedures.

17. The accountant should not agree to perform procedures that are overly subjective and thus possibly open to varying interpretations. Terms of uncertain meaning (such as general review, limited review, reconcile, check, or test) should not be used in describing the procedures unless such terms are defined within the agreed-upon procedures. The accountant should obtain evidential matter from applying the agreed-upon procedures to provide a reasonable basis for the finding or findings expressed in his or her report, but need not perform additional procedures outside the scope of the engagement to gather additional evidential matter.
18. Examples of appropriate procedures include—

• Execution of a sampling application after agreeing on relevant parameters.
• Inspection of specified documents evidencing certain types of transactions or detailed attributes thereof.
• Confirmation of specific information with third parties.
• Comparison of documents, schedules, or analyses with certain specified attributes.
• Performance of specific procedures on work performed by others (including the work of internal auditors — see paragraphs 24 and 25 of this Statement).
• Performance of mathematical computations.

19. Examples of inappropriate procedures include —

• Mere reading of the work performed by others solely to describe their findings.
• Evaluating the competency or objectivity of another party.
• Obtaining an understanding about a particular subject.
• Interpreting documents outside the scope of the accountant’s professional expertise.

Procedures on Internal Control Structure

20. As part of an engagement to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement, an accountant also may perform agreed-upon procedures on part of an entity’s internal control structure over financial reporting. The accountant’s report on such procedures should be part of the accountant’s report on applying agreed-upon procedures to the specified elements, accounts, or items and should follow the reporting guidance in paragraph 33 of this Statement. As noted in paragraph 26, the accountant should not provide negative assurance about the effectiveness of the internal control structure over financial reporting or any part thereof.
Involvement of a Specialist

21. The accountant's education and experience enable him or her to be knowledgeable about business matters in general, but he or she is not expected to have the expertise of a person trained for or qualified to engage in the practice of another profession or occupation. In certain circumstances it may be appropriate to involve a specialist to assist the accountant in the performance of one or more procedures. For example—

- An environmental engineer may provide assistance in interpreting environmental remedial action regulatory directives that may affect the agreed-upon procedures applied to an environmental liabilities account in a financial statement.
- A geologist may provide assistance in distinguishing between varying physical characteristics of a generic minerals group related to information disclosed in a note to the financial statements to which the agreed-upon procedures are applied.

22. The accountant and the specified users should explicitly agree to the involvement of the specialist in assisting an accountant in the performance of an engagement to apply agreed-upon procedures. This agreement may be reached when obtaining agreement on the procedures performed or to be performed and acknowledgment of responsibility for the sufficiency of the procedures, as discussed in paragraph 10 of this Statement. The accountant's report should describe the nature of the assistance provided by the specialist.

23. An accountant may agree to apply procedures to the report or work product of a specialist that does not constitute assistance by the specialist to the accountant in an engagement to apply agreed-upon procedures. For example, the accountant may make reference to information contained in a report of a specialist in describing an agreed-upon procedure. However, it is inappropriate for the accountant to agree to merely read the specialist's report solely to describe or repeat the findings, or to take responsibility for all or a portion of any procedures performed by a specialist or the specialist's work product.

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10 A specialist is a person (or firm) possessing special skill or knowledge in a particular field other than accounting or auditing. As used herein, specialist does not include a person employed by the accountant's firm who participates in the agreed-upon procedures engagement.
Internal Auditors and Other Personnel

24. The agreed-upon procedures to be enumerated or referred to in the accountant’s report are to be performed entirely by the accountant, except as discussed in paragraphs 21 through 23. However, internal auditors or other personnel may prepare schedules and accumulate data or provide other information for the accountant’s use in performing the agreed-upon procedures. Also, internal auditors may perform and report separately on procedures that they have carried out. Such procedures may be similar to those that an accountant may perform under this Statement.

25. An accountant may agree to perform procedures on the information documented in working papers of internal auditors. For example, the accountant may agree to—

- Repeat all or some of the procedures.
- Determine whether the internal auditors’ working papers contain documentation of procedures performed and whether the findings documented in the working papers are presented in a report by the internal auditors.

However, it is inappropriate for the accountant to—

- Agree to merely read the internal auditors’ report solely to describe or repeat their findings.
- Take responsibility for all or a portion of any procedures performed by the internal auditors by reporting those findings as the accountant’s own.
- Report in any manner that implies shared responsibility for the procedures with the internal auditors.

Findings

26. An accountant should present the results of applying agreed-upon procedures to specific subject matter in the form of findings. The accountant should not provide negative assurance about whether the specified elements, accounts, or items of a financial statement are fairly

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stated in relation to established or stated criteria such as generally accepted accounting principles. For example, the accountant should not include a statement in his or her report that “nothing came to my attention that caused me to believe that the specified element, account, or item of a financial statement is not fairly stated in accordance with generally accepted accounting principles.”

27. The accountant should report all findings from application of the agreed-upon procedures. The concept of materiality does not apply to findings to be reported in an engagement to apply agreed-upon procedures unless the definition of materiality is agreed to by the specified users. Any agreed-upon materiality limits should be described in the accountant’s report.

28. The accountant should avoid vague or ambiguous language in reporting findings. Examples of appropriate and inappropriate descriptions of findings resulting from the application of certain agreed-upon procedures follow:

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<th>Appropriate Description of Findings</th>
<th>Inappropriate Description of Findings</th>
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</table>
| Trace all outstanding checks appearing on a bank reconciliation as of a certain date to checks cleared in the bank statement of the subsequent month. | All outstanding checks appearing on the bank reconciliation were cleared in the subsequent month’s bank statement except for the following:  
[List all exceptions.]
| The outstanding invoice amounts agreed within an approximation of the amounts shown on the schedule in the “over ninety days” column, and nothing came to our attention that the dates shown on such invoices preceded the date indicated on the schedule by more than ninety days. |
| Compare the amounts of the invoices included in the “over ninety days” column shown in an identified schedule of aged accounts receivable of a specific customer as of a certain date to the amount and invoice date shown on the outstanding invoice, and determine whether or not the amounts agree and whether or not the invoice dates precede the date indicated on the schedule by more than ninety days. | The outstanding invoice amounts agreed within an approximation of the amounts shown on the schedule in the “over ninety days” column, and nothing came to our attention that the dates shown on such invoices preceded the date indicated on the schedule by more than ninety days. |
Working Papers

29. The accountant should prepare and maintain working papers in connection with an engagement to apply agreed-upon procedures; such working papers should be appropriate to the circumstance and the accountant's needs on the engagement to which they apply.\textsuperscript{12} Although the quantity, type, and content of working papers vary with the circumstances, ordinarily they should indicate that —

\begin{itemize}
\item[a.] The work was adequately planned and supervised.
\item[b.] Evidential matter was obtained to provide a reasonable basis for the finding or findings expressed in the accountant's report.
\end{itemize}

30. Working papers are the property of the accountant, and some states have statutes or regulations that designate the accountant as the owner of the working papers. The accountant's rights of ownership, however, are subject to ethical limitations relating to confidentiality.\textsuperscript{13}

31. Certain of the accountant's working papers may sometimes serve as a useful reference source for his or her client, but the working papers should not be regarded as a part of, or a substitute for, the client's records.

32. The accountant should adopt reasonable procedures for safe custody of his or her working papers and should retain them for a period of time sufficient to meet the needs of his or her practice and satisfy any pertinent legal requirements of records retention.

Reporting

Required Elements

33. The accountant's report on applying agreed-upon procedures to specified elements, accounts, or items of a financial statement should be

\textsuperscript{12} There is no intention to imply that the accountant would be precluded from supporting his or her report by other means in addition to working papers.

\textsuperscript{13} For guidance on requests from regulators for access to working papers, see the Interpretation Providing Access to or Photocopies of Working Papers to a Regulator (AICPA, Professional Standards, vol. 1, AU sec. 9339).
in the form of procedures and findings. The accountant's report should contain the following elements:

a. A title that includes the word independent
b. Reference to the specified elements, accounts, or items of a financial statement of an identified entity and the character of the engagement
c. Identification of specified users (see paragraph 38 of this Statement)
d. The basis of accounting of the specified elements, accounts, or items of a financial statement unless clearly evident
e. A statement that the procedures performed were those agreed to by the specified users identified in the report
f. Reference to standards established by the American Institute of Certified Public Accountants
g. A statement that the sufficiency of the procedures is solely the responsibility of the specified users and a disclaimer of responsibility for the sufficiency of those procedures
h. A list of the procedures performed (or reference thereto) and related findings (the accountant should not provide negative assurance—see paragraph 26 of this Statement)
i. Where applicable, a description of any agreed-upon materiality limits (see paragraph 27 of this Statement)
j. A statement that the accountant was not engaged to, and did not, perform an audit^{14} of the specified elements, accounts, or items; a disclaimer of opinion on the specified elements, accounts, or items; and a statement that if the accountant had performed additional procedures, other matters might have come to his or her attention that would have been reported^{15}

^{14} Alternatively, the wording may be: “These agreed-upon procedures do not constitute an audit or review of financial statements or any part thereof, the objective of which is the expression of opinion or limited assurance on the financial statements or a part thereof.”

^{15} When the accountant consents to the inclusion of his or her report on applying agreed-upon procedures in a document or written communication containing the entity's financial statements, he or she should refer to SAS No. 26, Association With Financial Statements (AICPA, Professional Standards, vol. 1, AU sec. 504), or to Statement on Standards for Accounting and Review Services (SSARS) 1, Compilation and Review of
k. A disclaimer of opinion on the effectiveness of the internal control structure over financial reporting or any part thereof when the accountant has performed procedures pursuant to paragraph 20 of this Statement

l. A statement of restrictions on the use of the report because it is intended to be used solely by the specified users\(^{16}\) (However, if the report is a matter of public record, the accountant should include the following sentence: “However, this report is a matter of public record and its distribution is not limited.”)

m. Where applicable, reservations or restrictions concerning procedures or findings as discussed in paragraphs 35, 37, 40, and 41 of this Statement

n. Where applicable, a description of the nature of the assistance provided by a specialist as discussed in paragraphs 21 and 22 of this Statement

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\(^{16}\) The purpose of the restriction on use of an accountant's report on applying agreed-upon procedures is to limit its use to only those parties that have agreed upon the procedures performed and taken responsibility for the sufficiency of the procedures. Paragraph 38 of this Statement describes the process for adding parties who were not originally contemplated in the agreed-upon procedures engagement.
Illustrative Report

34. The following is an illustration of a report on applying agreed-upon procedures to specified elements, accounts, or items of a financial statement. (See appendix A for additional illustrations.)

Independent Accountant’s Report on Applying Agreed-Upon Procedures

We have performed the procedures enumerated below, which were agreed to by [list specified users], solely to assist you with respect to [refer to the specified elements, accounts, or items of a financial statement for an identified entity and the character of the engagement]. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

[Include paragraphs to enumerate procedures and findings.]

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Explanatory Language

35. The accountant also may include explanatory language about matters such as the following:

• Disclosure of stipulated facts, assumptions, or interpretations (including the source thereof) used in the application of agreed-upon procedures
• Description of the condition of records, controls, or data to which the procedures were applied
• Explanation that the accountant has no responsibility to update his or her report
• Explanation of sampling risk
Dating of Report

36. The date of completion of the agreed-upon procedures should be used as the date of the accountant's report.

Restrictions on the Performance of Procedures

37. When circumstances impose restrictions on the performance of the agreed-upon procedures, the accountant should attempt to obtain agreement from the specified users for modification of the agreed-upon procedures. When such agreement cannot be obtained (for example, when the agreed-upon procedures are published by a regulatory agency that will not modify the procedures), the accountant should describe any restrictions on the performance of procedures in his or her report or withdraw from the engagement.

Adding Parties as Specified Users (Nonparticipant Parties)

38. Subsequent to the completion of the agreed-upon procedures engagement, an accountant may be requested to consider the addition of another party as a specified user (a nonparticipant party). The accountant may agree to add a nonparticipant party as a specified user, based on consideration of such factors as the identity of the nonparticipant party and the intended use of the report. If the accountant does agree to add the nonparticipant party, he or she should obtain affirmative acknowledgment, normally in writing, from the nonparticipant party agreeing to the procedures performed and of its taking responsibility for the sufficiency of the procedures. If the nonparticipant party is added after the accountant has issued his or her report, the report may be reissued or the accountant may provide other written acknowledgment that the nonparticipant party has been added as a specified user. If the report is reissued, the report date should not be changed. If the accountant provides written acknowledgment that the nonparticipant party has been added as a specified user, such written acknowledgment ordinarily should state that no procedures have been performed subsequent to the date of the report.

17 When considering whether to add a nonparticipant party, the guidance in SAS No. 1 (AU sec. 530.06–.07) may be helpful.
Representation Letter

39. An accountant may find a representation letter to be a useful and practical means of obtaining representations from the parties responsible for the specified elements, accounts, or items of a financial statement. The need for such a letter may depend on the nature of the engagement and the specified users. Examples of matters that might appear in a representation letter include a statement that a responsible party has disclosed to the accountant—

- All known matters contradicting the basis of accounting for the specified elements, accounts, or items of a financial statement.
- Any communication from regulatory agencies affecting the specified elements, accounts, or items of a financial statement.

40. The responsible party’s refusal to furnish written representations determined by the accountant to be appropriate for the engagement constitutes a limitation on the performance of the engagement. In such circumstances, the accountant should do one of the following:
   a. Disclose in his or her report the inability to obtain representations from the responsible party.
   b. Withdraw from the engagement.
   c. Change the engagement to another form of engagement.

Knowledge of Matters Outside Agreed-Upon Procedures

41. The accountant need not perform procedures beyond the agreed-upon procedures. However, if, in connection with the application of agreed-upon procedures, matters come to the accountant’s attention by other means that contradict the basis of accounting for the specified elements, accounts, or items of a financial statement referred to in the accountant’s report, the accountant ordinarily should include this matter in his or her report.\textsuperscript{18} For example, if, in connection with the application

\textsuperscript{18} If the accountant has performed (or has been engaged to perform) an audit of the entity’s financial statements to which a specified element, account, or item of a financial statement relates and the auditor’s report on such financial statements includes a departure from a standard report (SAS No. 58, \textit{Reports on Audited Financial Statements} [AICPA, \textit{Professional Standards}, vol. 1, AU sec. 508]), he or she should consider including a reference to the auditor’s report and the departure from the standard report in his or her agreed-upon procedures report.
of agreed-upon procedures, the accountant becomes aware of a potentially material adjustment to that account by means other than performance of the agreed-upon procedures, the accountant ordinarily should include this matter in his or her report.

Change to an Engagement to Apply Agreed-Upon Procedures From Another Form of Engagement

42. An accountant who has been engaged to perform another form of engagement may, before the engagement's completion, be requested to change the engagement to an engagement to apply agreed-upon procedures under this Statement. A request to change the engagement may result from a change in circumstances affecting the client's requirements, a misunderstanding about the nature of the original services or the alternative services originally available, or a restriction on the performance of the original engagement, whether imposed by the client or caused by circumstances.

43. Before an accountant who was engaged to perform another form of engagement agrees to change the engagement to an engagement to apply agreed-upon procedures, he or she should consider the following:
   a. The possibility that certain procedures performed as part of another type of engagement are not appropriate for inclusion in an engagement to apply agreed-upon procedures
   b. The reason given for the request, particularly the implications of a restriction on the scope of the original engagement or the matters to be reported
   c. The additional effort required to complete the original engagement
   d. If applicable, the reasons for changing from a general-distribution report to a restricted-use report

44. If the specified users acknowledge agreement to the procedures performed or to be performed and assume responsibility for the sufficiency of the procedures to be included in the agreed-upon procedures engagement, either of the following would be considered a reasonable basis for requesting a change in the engagement:
   a. A change in circumstances that requires another form of engagement
   b. A misunderstanding concerning the nature of the original engagement or the available alternatives
45. In all circumstances, if the original engagement procedures are substantially complete or the effort to complete such procedures is relatively insignificant, the accountant should consider the propriety of accepting a change in the engagement.

46. If the accountant concludes, based on his or her professional judgment, that there is reasonable justification to change the engagement, and provided he or she complies with the standards applicable to an engagement to apply agreed-upon procedures, the accountant should issue an appropriate agreed-upon procedures report. The report should not include reference to either the original engagement or performance limitations that resulted in the changed engagement. (See paragraph 41 of this Statement.)

Combined or Included Reports

47. When an accountant performs services pursuant to an engagement to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement as part of or in addition to another form of service, this Statement applies only to those services described herein; other Standards would apply to the other services. Other services may include an audit, review, or compilation of a financial statement, attest services performed pursuant to the Statements on Standards for Attestation Engagements, or a nonattest service. Reports on applying agreed-upon procedures to specified elements, accounts, or items of a financial statement may be included or combined with reports on such other services, provided the types of services can be clearly distinguished and the applicable standards for each service are followed. However, since an accountant’s report on applying agreed-upon procedures to specified elements, accounts, or items of a financial statement is restricted to the specified users, including or combining such a report with reports on other services results in restriction of all the included reports to the specified users.

Effective Date

48. The effective date for this Statement is for reports on engagements to apply agreed-upon procedures dated after April 30, 1996. Earlier application is encouraged.
Appendix A

Additional Illustrative Reports

The following are additional illustrations of reporting on applying agreed-upon procedures to specified elements, accounts, or items of a financial statement:

Report in Connection With a Proposed Acquisition

Independent Accountant’s Report on Applying Agreed-Upon Procedures

To the Board of Directors and Management of X Company:

We have performed the procedures enumerated below, which were agreed to by the Board of Directors and Management of X Company, solely to assist you in connection with the proposed acquisition of Y Company as of December 31, 19XX. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board of Directors and Management of X Company. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

Cash

1. We obtained confirmation of the cash on deposit from the following banks, and we agreed the confirmed balance to the amount shown on the bank reconciliations maintained by Y Company. We mathematically checked the bank reconciliations and compared the resultant cash balances per book to the respective general ledger account balances.

<table>
<thead>
<tr>
<th>Bank</th>
<th>General Ledger Account Balances as of December 31, 19XX</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC National Bank</td>
<td>$5,000</td>
</tr>
<tr>
<td>DEF State Bank</td>
<td>13,776</td>
</tr>
<tr>
<td>XYZ Trust Company—regular account</td>
<td>86,912</td>
</tr>
<tr>
<td>XYZ Trust Company—payroll account</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td>$110,688</td>
</tr>
</tbody>
</table>

We found no exceptions as a result of the procedures.

Accounts Receivable

2. We added the individual customer account balances shown in an aged trial balance of accounts receivable (identified as exhibit A) and compared the resultant total with the balance in the general ledger account.

We found no difference.
3. We compared the individual customer account balances shown in the aged trial balance of accounts receivable (exhibit A) as of December 31, 19XX, to the balances shown in the accounts receivable subsidiary ledger.

We found no exceptions as a result of the comparisons.

4. We traced the aging (according to invoice dates) for 50 customer account balances shown in exhibit A to the details of outstanding invoices in the accounts receivable subsidiary ledger. The balances selected for tracing were determined by starting at the eighth item and selecting every fifteenth item thereafter.

We found no exceptions in the aging of the amounts of the 50 customer account balances selected. The sample size traced was 9.8 percent of the aggregate amount of the customer account balances.

5. We mailed confirmations directly to the customers representing the 150 largest customer account balances selected from the accounts receivable trial balance, and we received responses as indicated below. We also traced the items constituting the outstanding customer account balance to invoices and supporting shipping documents for customers from which there was no reply. As agreed, any individual differences in a customer account balance of less than $300 were to be considered minor, and no further procedures were performed.

Of the 150 customer balances confirmed, we received responses from 140 customers; 10 customers did not reply. No exceptions were identified in 120 of the confirmations received. The differences disclosed in the remaining 20 confirmation replies were either minor in amount (as defined above) or were reconciled to the customer account balance without proposed adjustment thereto. A summary of the confirmation results according to the respective aging categories is as follows:

<table>
<thead>
<tr>
<th>Aging Categories</th>
<th>Customer Account Balances</th>
<th>Confirmation Confirmed</th>
<th>Confirmation Replied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$156,000</td>
<td>$ 76,000</td>
<td>$ 65,000</td>
</tr>
<tr>
<td>Past due:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than one month</td>
<td>60,000</td>
<td>30,000</td>
<td>19,000</td>
</tr>
<tr>
<td>One to three months</td>
<td>36,000</td>
<td>18,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Over three months</td>
<td>48,000</td>
<td>48,000</td>
<td>8,000</td>
</tr>
<tr>
<td><strong>$300,000</strong></td>
<td><strong>$172,000</strong></td>
<td><strong>$102,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Board of Directors and Management of X Company and should not be used by those who have not agreed
to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

**Report in Connection With Claims of Creditors**

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Trustee of XYZ Company:

We have performed the procedures described below, which were agreed to by the Trustee of XYZ Company, with respect to the claims of creditors to determine the validity of claims of XYZ Company as of May 31, 19XX, as set forth in accompanying Schedule A. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Trustee of XYZ Company. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

1. Compare the total of the trial balance of accounts payable at May 31, 19XX, prepared by XYZ Company, to the balance in the related general ledger account.

   The total of the accounts payable trial balance agreed with the balance in the related general ledger account.

2. Compare the amounts for claims received from creditors (as shown in claim documents provided by XYZ Company) to the respective amounts shown in the trial balance of accounts payable. Using the data included in the claims documents and in XYZ Company's accounts payable detail records, reconcile any differences found to the accounts payable trial balance.

   All differences noted are presented in column 3 of Schedule A. Except for those amounts shown in column 4 of Schedule A, all such differences were reconciled.

3. Examine the documentation submitted by creditors in support of the amounts claimed and compare it to the following documentation in XYZ Company's files: invoices, receiving reports, and other evidence of receipt of goods or services.

   No exceptions were found as a result of these comparisons.

   We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

   This report is intended solely for the use of the Trustee of XYZ Company and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.
Appendix B

Amendment to SAS No. 74, Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance

(Amends Statement on Auditing Standards No. 74, AICPA, Professional Standards, vol. 1, AU sec. 801.02.)

1. This amendment relates to SAS No. 75, Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement. The amendment is effective for reports on agreed-upon procedures engagements dated after April 30, 1996.

2. The following footnote has been added to paragraph 1 after footnote 2, and the subsequent footnotes renumbered.

3 When engaged to perform an agreed-upon procedures engagement for which the objective is to report in accordance with this Statement, the auditor may consider the guidance in SAS No. 75, Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement, or SSAE No. 4, Agreed-Upon Procedures Engagements.
This Statement entitled Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement was adopted by the assenting votes of fourteen members of the board, of whom three, Mssrs. McElroy, Gerson, and Walton, assented with qualification.

Mr. McElroy qualifies his assent to paragraphs 2a and 6 of this Statement because he believes that essentially the same guidance is contained in Statement on Standards for Attestation Engagements (SSAE) No. 4, Agreed-Upon Procedures Engagements, which is being issued concurrently with this Statement. He believes that the guidance for agreed-upon procedures engagements would have been better accomplished by issuance of a single Standard.

This Statement encompasses engagements to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement and permits management’s assertion to be either written or implied. SSAE No. 4 encompasses other agreed-upon procedures engagements and requires that management’s assertion be in writing. Mr. McElroy believes this distinction to be impractical, unnecessarily confusing to both practitioners and users, and not of sufficient importance to justify two separate Standards. Instead, he believes that a written assertion by management should be required for all engagements encompassed by either Standard. He believes such a requirement would not be onerous and would remove an unnecessary difference between the two Standards.

Messrs. Gerson and Walton qualify their assents to the issuance of the Statement because they do not believe that there is a solid conceptual or practical basis for the restriction with respect to internal auditors contained in paragraph 24, which requires that the agreed-upon procedures be performed entirely by the accountant. They believe that it is appropriate for internal audit to provide direct assistance to the accountant, as long as the report describes that involvement of internal audit in a manner sufficient for the users to understand such involvement. The guidance in paragraph 27 of SAS No. 65, The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements (AU sec. 322), with respect to an assessment of the internal auditors’ competence and objectivity, and the supervision, review, evaluation, and testing of the work performed by internal auditors, would be appropriate in such circumstances.
**Auditing Standards Board (1995)**

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Auditing Standards

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