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Agreed-upon procedures engagements; Statement on standards for attestation engagements 4

American Institute of Certified Public Accountants. Auditing Standards Board

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Statement on Standards for Attestation Engagements

Issued by the Auditing Standards Board

September 1995

4

AICPA

American Institute of Certified Public Accountants

Agreed-Upon Procedures Engagements

(Footnote 1 of this Statement provides details of the Standards superseded upon issuance of this Statement.)

CONTENTS OF STATEMENT

	Paragraph
Introduction and Applicability	1-2
Agreed-Upon Procedures Engagements	3-4
Standards	5
Assertions and Related Subject Matter	6-9
Conditions for Engagement Performance	10-12
Agreement on and Sufficiency of Procedures	11
Engagement Letters	12
Nature, Timing, and Extent of Procedures	13-25
Users' Responsibility	13
Practitioner's Responsibility	14-16
Procedures to Be Performed	17-20
Involvement of a Specialist	21-23
Internal Auditors and Other Personnel	24-25
Findings	26-28
Working Papers	29-32
Reporting	33-38
Required Elements	33

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1 2 3 4 5 6 7 8 9 0 AudS 9 9 8 7 6 5

	Paragraph
Illustrative Report	34
Explanatory Language.....	35
Dating of Report	36
Restrictions on the Performance of Procedures	37
Adding Parties as Specified Users (Nonparticipant Parties) .	38
Representations by Asserters	39–41
Knowledge of Matters Outside Agreed-Upon Procedures	42
Change to an Agreed-Upon Procedures Engagement	
From Another Form of Engagement	43–47
Combined or Included Reports	48
Effective Date.....	49
	Page
Appendix A: Amendment to “Financial Forecasts and Projections” (AT sec. 200)	25
Appendix B: Amendment to <i>Compliance Attestation</i> (AT sec. 500)	30

Introduction and Applicability

1. This Statement sets forth attestation standards and provides guidance to a practitioner concerning performance and reporting in all agreed-upon procedures engagements, except as noted in paragraph 2.¹ A practitioner also should refer to the following Statements on Standards for Attestation Engagements (SSAEs), which provide additional guidance for certain types of agreed-upon procedures engagements:

- a. SSAE No. 1, *Attestation Standards* (AICPA, *Professional Standards*, vol. 1, AT sec. 200, “Financial Forecasts and Projections”)
- b. SSAE No. 3, *Compliance Attestation* (AICPA, *Professional Standards*, vol. 1, AT sec. 500)

2. This Statement does not apply to²—

- a. Situations in which an auditor reports on the application of agreed-upon procedures to one or more specified elements, accounts, or items of a financial statement,³ pursuant to Statement on Auditing Standards (SAS) No. 75, *Engagements to Apply Agreed-Upon Pro-*

¹ This Statement *supersedes* paragraphs 43, 44, and 59 through 62 of “Attestation Standards” in Statement on Standards for Attestation Engagements (SSAE) No. 1, *Attestation Standards* (AICPA, *Professional Standards*, vol. 1, AT sec. 100), and paragraphs 53, 55, and 56 of “Financial Forecasts and Projections” in SSAE No. 1 (AT sec. 200). This Statement also supersedes paragraph 9 of SSAE No. 2, *Reporting on an Entity’s Internal Control Structure Over Financial Reporting* (AICPA, *Professional Standards*, vol. 1, AT sec. 400) and paragraphs 10 and 12 of SSAE No. 3, *Compliance Attestation* (AICPA, *Professional Standards*, vol. 1, AT sec. 500).

It also *amends* paragraphs 49 through 52, 54, and 57 of SSAE No. 1 (AT sec. 200) and paragraphs 15 through 18, 23, 24, 26, and 71 and footnote 8 of SSAE No. 3 (AT sec 500).

Furthermore, as a consequence of the foregoing changes to existing standards, this Statement requires conforming changes to certain Statements on Auditing Standards (SASs) and related Interpretations and to certain SSAEs and the Interpretation *Responding to Requests for Reports on Matters Relating to Solvency* (AICPA, *Professional Standards*, vol. 1, AT sec. 9100.33–.44). In addition, the guidance in certain Audit and Accounting Guides and in Statement of Position (SOP) 90-1, *Accountants’ Services on Prospective Financial Statements for Internal Use Only and Partial Presentations*, will be updated.

² The Attest Interpretation *Responding to Requests for Reports on Matters Relating to Solvency* (AICPA, *Professional Standards*, vol. 1, AT sec. 9100.33–.44) prohibits the performance of any attest engagements concerning assertions on matters of solvency or insolvency.

³ When engaged to perform agreed-upon procedures on prospective financial information, the practitioner should follow the guidance in this Statement and in SSAE No. 1 (AT sec. 200).

cedures to Specified Elements, Accounts, or Items of a Financial Statement (AICPA, *Professional Standards*, vol. 1, AU sec. 622).⁴

- b. Situations in which an auditor reports on specified compliance requirements based solely on an audit of financial statements, as addressed in paragraphs 19 through 21 of 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), unless the terms of the engagement specify that the engagement be performed pursuant to SSAEs.
- 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 applies when the service auditor provides a separate report on the performance of agreed-upon procedures in an attestation engagement.)
- e. Engagements covered by SAS No. 72, *Letters for Underwriters and Certain Other Requesting Parties* (AICPA, *Professional Standards*, vol. 1, AU sec. 634).
- f. An engagement for which there is no written assertion, as defined in paragraph 6 of this Statement. In such a situation, a practitioner may provide certain nonattest services involving advice or recommendations to a client. A practitioner engaged to provide such nonattest services should refer to the guidance in the Statement on Standards for Consulting Services, *Consulting Services: Definitions and Standards* (AICPA, *Professional Standards*, vol. 2, CS sec. 100), or other applicable professional standards.
- g. Certain professional services that would not be considered as falling under this Statement as described in paragraph 2 of SSAE No. 1, *Attestation Standards* (AICPA, *Professional Standards*, vol. 1, AT sec. 100, "Attestation Standards").

⁴ The practitioner may issue combined reports on engagements to apply agreed-upon procedures pursuant to paragraph 48 of this Statement and paragraph 47 of SAS No. 75.

Agreed-Upon Procedures Engagements

3. An agreed-upon procedures engagement is one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on the subject matter of an assertion, as defined in paragraph 6 of this Statement. The client engages the practitioner to assist users in evaluating an assertion as a result of a need or needs of users of the report. Because users require that findings be independently derived, the services of a practitioner are obtained to perform procedures and report his or her findings. The users and the practitioner agree upon the procedures to be performed by the practitioner 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 practitioner does not perform an examination or review (see SSAE No. 1, AT sec. 100) and does not provide an opinion or negative assurance (see paragraph 26 of this Statement) about the assertion. Instead, the practitioner'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, a practitioner'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*.

Standards

5. The general, fieldwork, and reporting standards for attestation engagements as set forth in SSAE No. 1 (AT sec. 100), together with interpretive guidance regarding their application as addressed throughout this Statement, should be followed by the practitioner in performing and reporting on agreed-upon procedures engagements.

General Standards

a. The first general standard is — *The engagement shall be performed by a practitioner or practitioners having adequate technical training and proficiency in the attest function.* (SSAE No. 1, AT sec. 100.06)

b. The second general standard is — *The engagement shall be performed by a practitioner or practitioners having adequate knowledge in the subject matter of the assertion.* (SSAE No. 1, AT sec. 100.09)

c. The third general standard is — *The practitioner shall perform an engagement only if he or she has reason to believe that the following two conditions exist:*

- (1) *The assertion is capable of evaluation against reasonable criteria that either have been established by a recognized body or are stated in the presentation of the assertion in a sufficiently clear and comprehensive manner for a knowledgeable reader to be able to understand them.*
- (2) *The assertion is capable of reasonably consistent estimation or measurement using such criteria.* (SSAE No. 1, AT sec. 100.11)

(Refer to paragraph 6 of this Statement.)

d. The fourth general standard is — *In all matters relating to the engagement, an independence in mental attitude shall be maintained by the practitioner.* (SSAE No. 1, AT sec. 100.22)⁵

e. The fifth general standard is — *Due professional care shall be exercised in the performance of the engagement.* (SSAE No. 1, AT sec. 100.25)

Standards of Fieldwork

a. The first standard of fieldwork is — *The work shall be adequately planned and assistants, if any, shall be properly supervised.* (SSAE No. 1, AT sec. 100.28)

b. The second standard of fieldwork is — *Sufficient evidence shall be obtained to provide a reasonable basis for the conclusion that is expressed in the report.* (SSAE No. 1, AT sec. 100.36)

(Refer to paragraph 18 of this Statement.)

Standards of Reporting

a. The first standard of reporting is — *The report shall identify the assertion being reported on and state the character of the engagement.* (SSAE No. 1, AT sec. 100.45)

(Refer to paragraph 33 of this Statement.)

⁵ Practitioners performing attest engagements must be *independent* pursuant to rule 101 of the *Code of Professional Conduct* (AICPA, *Professional Standards*, vol. 2, ET sec. 101). Interpretation 11 to rule 101 provides guidance about its application in certain attest engagements (see AICPA, *Professional Standards*, vol. 2, ET sec. 101.13).

b. The second standard of reporting is — *The report shall state the practitioner's conclusion about whether the assertion is presented in conformity with the established or stated criteria against which it was measured.* (SSAE No. 1, AT sec. 100.49)

(Refer to paragraphs 6, 26 through 28, and 33 of this Statement.)

c. The third standard of reporting is — *The report shall state all of the practitioner's significant reservations about the engagement and the presentation of the assertion.* (SSAE No. 1, AT sec. 100.63)

(Refer to paragraphs 35, 37, 41 and 42 of this Statement.)

d. The fourth standard of reporting is — *The report on an engagement to evaluate an assertion that has been prepared in conformity with agreed-upon criteria or on an engagement to apply agreed-upon procedures should contain a statement limiting its use to the parties who have agreed upon such criteria or procedures.* (SSAE No. 1, AT sec. 100.69)

(Refer to paragraphs 4 and 38 of this Statement.)

Assertions and Related Subject Matter

6. An *assertion* is any declaration, or set of related declarations taken as a whole, by a party responsible for it. The *subject matter of an assertion* is any attribute, or subset of attributes, referred to or contained in an assertion and may in and of itself constitute an assertion. An assertion may be capable of reasonably consistent estimation or measurement using reasonable criteria as discussed in the third general standard; or an assertion may be one that is not measurable against reasonable criteria, possibly because the assertion is too broad or because such criteria do not exist. In an agreed-upon procedures engagement, it is the *specific subject matter of the assertion to which the agreed-upon procedures are to be applied* (referred to in this Statement as *specific subject matter*) that must satisfy the conditions set forth in the third general standard. Since the procedures are agreed upon between the practitioner and the specified users, the criteria against which the specific subject matter needs to be measurable may be recited within the procedures enumerated or referred to in the practitioner's report.

7. The assertion should be presented in writing in a representation letter or another written communication from the responsible party (see paragraph 39 of this Statement). A written assertion may be presented to

a practitioner in a number of ways, such as in a statement, narrative description, or schedule appropriately identifying what is being presented and the point in time or the period of time covered.

8. Examples of written assertions include —

- A statement that an entity maintained an effective internal control structure over financial reporting based upon established criteria as of a certain date.
- A narrative description about an entity's compliance with requirements of specified laws, regulations, rules, contracts, or grants during a specified period (see SSAE No. 3 for additional guidance).
- A representation by management that all investment securities owned by an entity during a specified period were traded on one or more of the markets specified in the entity's investment policy.
- A statement that the documentation of employee evaluations included in personnel files as of a certain date is dated within the time frame set forth in the entity's personnel policy.
- A schedule of statistical production data prepared in accordance with the policies of an identified entity for a specified period.

9. In certain circumstances, the assertion may not have been finalized before determination that an attestation engagement will be undertaken by the practitioner and before all procedures have been agreed upon. This is a consequence of the evolving nature of these engagements, often to the point that the assertion is not finalized until shortly before the practitioner prepares his or her report. Typically, however, there is information identified to the practitioner from which an assertion will be formulated. In any event, the responsible party should furnish the written assertion to the practitioner prior to issuance of his or her report on an agreed-upon procedures engagement.

Conditions for Engagement Performance

10. The practitioner may perform an agreed-upon procedures attestation engagement provided that —

- a. The practitioner is *independent*.
- b. The responsible party will provide the assertion in writing to the practitioner prior to the issuance of his or her report.
- c. The practitioner and the specified users agree upon the procedures performed or to be performed by the practitioner.

- d.* The specified users take responsibility for the sufficiency of the agreed-upon procedures for their purposes.
- e.* The specific subject matter to which the procedures are to be applied is subject to reasonably consistent estimation or measurement.
- f.* Criteria to be used in the determination of findings are agreed upon between the practitioner and the specified users.
- g.* The procedures to be applied to the specific subject matter are expected to result in reasonably consistent findings using the criteria.
- h.* 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 practitioner's report.
- i.* Where applicable, the practitioner and the specified users agree on any materiality limits for reporting purposes. (See paragraph 27 of this Statement.)
- j.* Use of the report is restricted to the specified users.⁶
- k.* For agreed-upon procedures engagements on prospective financial information, the prospective financial statements include a summary of significant assumptions (see SSAE No. 1, AT sec. 200.50).
- l.* For agreed-upon procedures engagements performed pursuant to SSAE No. 3, management evaluates the entity's compliance with specified requirements or the effectiveness of the entity's internal control structure over compliance (see SSAE No. 3, AT sec. 500.09).

Agreement on and Sufficiency of Procedures

11. To satisfy the requirements that the practitioner and the specified users agree upon the procedures performed or to be performed and that the specified users take responsibility for the sufficiency of the agreed-upon procedures for their purposes, ordinarily the practitioner 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 practitioner is not able to communicate directly with all of the specified users, the practitioner may satisfy these

⁶ A practitioner may perform an engagement pursuant to which his or her report will be a matter of public record. (See paragraph 33 of this Statement.)

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 practitioner 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 practitioner is requested to add parties as specified users after the date of completion of the agreed-upon procedures.)

Engagement Letters

12. The practitioner should establish a clear understanding regarding the terms of the 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 assertion to be received and the party responsible for the assertion
- 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 practitioner (see paragraphs 14 through 16 and 42 of this Statement)
- Reference to applicable AICPA standards
- Agreement on procedures by enumerating (or referring to) the procedures (see paragraphs 17 through 20 of this Statement)
- Disclaimers expected to be included in the practitioner's report
- Use restrictions
- Assistance to be provided to the practitioner (see paragraphs 24 and 25 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

13. 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 practitioner.

Practitioner's Responsibility

14. The responsibility of the practitioner is to carry out the procedures and report the findings in accordance with the general, fieldwork, and reporting standards as discussed and interpreted in this Statement. The practitioner assumes the risk that misapplication of the procedures may result in inappropriate findings being reported. Furthermore, the practitioner assumes the risk that appropriate findings may not be reported or may be reported inaccurately. The practitioner'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.

15. The practitioner should have adequate knowledge in the specific subject matter to which the agreed-upon procedures are to be applied. He or she may obtain such knowledge through formal or continuing education, practical experience, or consultation with others.⁷

16. The practitioner has no responsibility to determine the differences

⁷ Paragraphs 18 and 19 of SSAE No. 3 (AT sec. 500) provide guidance about obtaining an understanding of certain requirements in an agreed-upon procedures engagement involving management's assertion on compliance.

between the agreed-upon procedures to be performed and the procedures that the practitioner would have determined to be necessary had he or she been engaged to perform another form of attest engagement. The procedures that the practitioner agrees to perform pursuant to an agreed-upon procedures engagement may be more or less extensive than the procedures that the practitioner would determine to be necessary had he or she been engaged to perform another form of engagement.

Procedures to Be Performed

17. The procedures that the practitioner 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 a practitioner 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 should be agreed upon include the nature, timing, and extent of the procedures.

18. The practitioner 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 practitioner 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.

19. 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.

20. 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 practitioner's professional expertise.

Involvement of a Specialist⁸

21. The practitioner'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 practitioner in the performance of one or more procedures. For example —

- An attorney might provide assistance concerning the interpretation of legal terminology involving laws, regulations, rules, contracts, or grants.
- A medical specialist might provide assistance in understanding the characteristics of diagnosis codes documented in patient medical records.

22. The practitioner and the specified users should explicitly agree to the involvement of the specialist in assisting a practitioner in the performance of an agreed-upon procedures engagement. 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 11 of this Statement.

⁸ A *specialist* is a person (or firm) possessing special skill or knowledge in a particular field other than the attest function. As used herein, a specialist does not include a person employed by the practitioner's firm who participates in the attestation engagement.

The practitioner's report should describe the nature of the assistance provided by the specialist.

23. A practitioner may agree to apply procedures to the report or work product of a specialist that does not constitute assistance by the specialist to the practitioner in an agreed-upon procedures engagement. For example, the practitioner may make reference to information contained in a report of a specialist in describing an agreed-upon procedure. However, it is inappropriate for the practitioner 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.

Internal Auditors and Other Personnel⁹

24. The agreed-upon procedures to be enumerated or referred to in the practitioner's report are to be performed entirely by the practitioner except as discussed in paragraphs 21 through 23 of this Statement. However, internal auditors or other personnel may prepare schedules and accumulate data or provide other information for the practitioner'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 a practitioner may perform under this Statement.

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

- Agree to merely read the internal auditors' report solely to describe or repeat their findings.

⁹ SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 322), does not apply to agreed-upon procedures engagements.

- Take responsibility for all or a portion of any procedures performed by internal auditors by reporting those findings as the practitioner’s own.
- Report in any manner that implies shared responsibility for the procedures with the internal auditors.

Findings

26. A practitioner should present the results of applying agreed-upon procedures to specific subject matter in the form of findings. The practitioner should not provide negative assurance about whether the assertion is fairly stated in accordance with established or stated criteria. For example, the practitioner should not include a statement in his or her report that “nothing came to my attention that caused me to believe that the assertion is not fairly stated in accordance with (established or stated) criteria.”

27. The practitioner 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 agreed-upon procedures engagement unless the definition of materiality is agreed to by the specified users. Any agreed-upon materiality limits should be described in the practitioner’s report.

28. The practitioner 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:

<i>Procedures Agreed Upon</i>	<i>Appropriate Description of Findings</i>	<i>Inappropriate Description of Findings</i>
Inspect the shipment dates for a sample (agreed-upon) of specified shipping documents and determine whether any such dates were subsequent to December 31, 19XX.	No shipment dates shown on the sample of shipping documents inspected were subsequent to December 31, 19XX.	Nothing came to my attention as a result of applying the procedure.

(continued)

<i>Procedures Agreed Upon</i>	<i>Appropriate Description of Findings</i>	<i>Inappropriate Description of Findings</i>
Calculate the number of blocks of streets paved during the year ended September 30, 19XX, shown on contractors' certificates of project completion; compare the resultant number to the number in an identified chart of performance statistics.	The number of blocks of streets paved in the chart of performance statistics was Y blocks more than the number calculated from the contractors' certificates of project completion.	The number of blocks of streets paved approximated the number of blocks included in the chart of performance statistics.
Calculate the rate of return on a specified investment (according to an agreed-upon formula) and verify that the resultant percentage agrees to the percentage in an identified schedule.	No exceptions were found as a result of applying the procedure.	The resultant percentage approximated the predetermined percentage in the identified schedule.
Inspect the quality standards classification codes in identified performance test documents for products produced during a specified period; compare such codes to those shown in an identified computer print-out.	All classification codes inspected in the identified documents were the same as those shown in the computer print-out except for the following: <i>[List all exceptions.]</i>	All classification codes appeared to comply with such performance test documents.

Working Papers

29. The practitioner should prepare and maintain working papers in connection with an agreed-upon procedures engagement under the attestation standards; such working papers should be appropriate to the circumstances and the practitioner's needs on the engagement to which they apply.¹⁰ Although the quantity, type, and content of working papers vary with the circumstances, ordinarily they should indicate that —

- a. The work was adequately planned and supervised.
- b. Evidential matter was obtained to provide a reasonable basis for the finding or findings expressed in the practitioner's report.

¹⁰ There is no intention to imply that the practitioner would be precluded from supporting his or her report by other means in addition to working papers.

30. Working papers are the property of the practitioner, and some states have statutes or regulations that designate the practitioner as the owner of the working papers. The practitioner's rights of ownership, however, are subject to ethical limitations relating to confidentiality.¹¹

31. Certain of the practitioner'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 practitioner 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 practitioner's report on agreed-upon procedures should be in the form of procedures and findings. The practitioner's report should contain the following elements:

- a. A title that includes the word *independent*
- b. Identification of the specified users (see paragraph 38 of this Statement)
- c. Reference to the assertion¹² and the character of the engagement
- d. A statement that the procedures performed were those agreed to by the specified users identified in the report
- e. Reference to standards established by the American Institute of Certified Public Accountants
- f. 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

¹¹ 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).

¹² In some agreed-upon procedures engagements, management may present more than one assertion. In these engagements, the practitioner may issue one report that refers to all assertions presented. (See SSAE No. 3, AT sec. 500.27.)

- g. A list of the procedures performed (or reference thereto) and related findings (The practitioner should not provide negative assurance — see paragraph 26 of this Statement.)
- h. Where applicable, a description of any agreed-upon materiality limits (see paragraph 27 of this Statement)
- i. A statement that the practitioner was not engaged to, and did not, perform an examination of the assertion, a disclaimer of opinion on the assertion, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported¹³
- j. A statement of restrictions on the use of the report because it is intended to be used solely by the specified users¹⁴ (However, if the report is a matter of public record, the practitioner should include the following sentence: “However, this report is a matter of public record and its distribution is not limited.”)
- k. Where applicable, reservations or restrictions concerning procedures or findings as discussed in paragraphs 35, 37, 41, and 42 of this Statement

¹³ When the practitioner consents to the inclusion of his or her report on an agreed-upon procedures engagement 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 Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100), as appropriate, for guidance on his or her responsibility pertaining to the financial statements.

The practitioner should follow (a) paragraph 4 of SAS No. 26 when the financial statements of a public or nonpublic entity are audited (or reviewed in accordance with SAS No. 71, *Interim Financial Information* [AICPA, *Professional Standards*, Vol. 1, AU sec. 722]) or (b) paragraph 5 of SAS No. 26 when the financial statements of a public entity are unaudited. The practitioner should follow paragraph 6 of SSARS 1 when (a) the financial statements of a nonpublic entity are reviewed or compiled or (b) the financial statements of a nonpublic entity are *not* reviewed or compiled and are not submitted by the accountant (as defined in paragraph 7 of SSARS 1, AR sec. 100).

In addition, including or combining a report that is restricted to specified users with a report for general distribution results in restriction of all included reports to the specified users (see paragraph 70 of SSAE No. 1).

¹⁴ The purpose of the restriction on use of a practitioner’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.

- l. For an agreed-upon procedures engagement on prospective financial information, all items included in SSAE No. 1 (AT sec. 200.54)
- m. Where applicable, a description of the nature of the assistance provided by a specialist as discussed in paragraphs 21 through 23 of this Statement

Illustrative Report

34. The following is an illustration of an agreed-upon procedures report.

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Audit Committees and Managements of ABC Inc. and XYZ Fund:

We have performed the procedures enumerated below, which were agreed to by the audit committees and managements of ABC Inc. and XYZ Fund, solely to assist you in evaluating the accompanying Statement of Investment Performance Statistics of XYZ Fund (prepared in accordance with the criteria specified therein) for the year ended December 31, 19X1. This agreed-upon procedures engagement 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 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 examination, the objective of which would be the expression of an opinion on the accompanying Statement of Investment Performance Statistics of XYZ Fund. 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 audit committees and managements of ABC Inc. and XYZ Fund, 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 practitioner 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 (for example, see SSAE No. 3, AT sec. 500.25)
- Description of the condition of records, controls, or data to which the procedures were applied
- Explanation that the practitioner 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 practitioner's report.

Restrictions on the Performance of Procedures

37. When circumstances impose restrictions on the performance of the agreed-upon procedures, the practitioner 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 practitioner 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, a practitioner may be requested to consider the addition of another party as a specified user (a nonparticipant party). The practitioner 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.¹⁵ If the practitioner does agree to add the nonparticipant party, he or she should obtain affirmative acknowledgment, normally in writing, from the nonparticipant party

¹⁵ When considering whether to add a nonparticipant party, the guidance in SAS No. 1, *Codification of Auditing Standards and Procedures* (AICPA, *Professional Standards*, vol. 1, AU sec. 530.06–.07), may be helpful.

agreeing to the procedures performed and of its taking responsibility for the sufficiency of the procedures. If the nonparticipant party is added after the practitioner has issued his or her report, the report may be reissued or the practitioner 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 practitioner 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.

Representations by Asserters

39. As discussed in paragraph 7 of this Statement, the written assertion should be presented in a representation letter or another written communication from the responsible party. The responsible party's refusal to furnish a written assertion constitutes a limitation on the performance of the engagement that requires the practitioner to withdraw from the engagement.

40. A practitioner also may find a representation letter to be a useful and practical means of obtaining other representations from the responsible party. The need for such a letter may depend on the nature of the engagement and the specified users. For example, paragraph 70 of SSAE No. 3 requires a practitioner to obtain a representation letter in an agreed-upon procedures engagement related to compliance with specified requirements. Examples of matters that might appear in a representation letter include a statement that the responsible party has disclosed to the practitioner —

- All known matters contradicting the assertion.
- Any communication from regulatory agencies affecting the assertion.

41. The responsible party's refusal to furnish written representations determined by the practitioner to be appropriate for the engagement constitutes a limitation on the performance of the engagement. In such circumstances, the practitioner 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.¹⁶
- c. Change the engagement to another form of engagement.

Knowledge of Matters Outside Agreed-Upon Procedures

42. The practitioner need not perform procedures beyond the agreed-upon procedures. However, in connection with the application of agreed-upon procedures, if matters come to the practitioner's attention by other means that significantly contradict the assertion referred to in the practitioner's report, the practitioner should include this matter in his or her report. For example, if, during the course of applying agreed-upon procedures regarding management's assertion relating to the entity's internal control structure, the practitioner becomes aware of a material weakness by means other than performance of the agreed-upon procedure, the practitioner should include this matter in his or her report.

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

43. A practitioner who has been engaged to perform another form of attest engagement or a nonattest service engagement may, before the engagement's completion, be requested to change the engagement to an agreed-upon procedures engagement 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.

¹⁶ For an agreed-upon procedures engagement performed pursuant to SSAE No. 3, management's refusal to furnish all required written representations also constitutes a limitation on the scope of the engagement that requires the practitioner to withdraw from the engagement. (See SSAE No. 3, AT sec. 500.71.)

44. Before a practitioner who was engaged to perform another form of engagement agrees to change the engagement to an agreed-upon procedures engagement, 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 agreed-upon procedures engagement
- 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

45. 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

46. In all circumstances, if the original engagement procedures are substantially complete or the effort to complete such procedures is relatively insignificant, the practitioner should consider the propriety of accepting a change in the engagement.

47. If the practitioner 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 agreed-upon procedures engagements, the practitioner 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 42 of this Statement.)

Combined or Included Reports

48. When a practitioner performs services pursuant to an engagement to apply agreed-upon procedures to specific subject matter 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, another attest service performed pursuant to the SSAEs, or a nonattest service.¹⁷ Reports on applying agreed-upon procedures to specific subject matter 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 a practitioner's report on applying agreed-upon procedures to specific subject matter 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

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

¹⁷ See SSAE No. 1, AT sec. 100.71–.73, for requirements relating to attest services provided as part of an MAS engagement.

Appendix A

Amendment to “Financial Forecasts and Projections”

(Amends Statement on Standards for Attestation Engagements No. 1, Attestation Standards, AICPA, Professional Standards, vol. 1, AT sec. 200.49–.52, .54, and .57.)

This amendment results from SSAE No. 4, *Agreed-Upon Procedures Engagements*. The amendment is effective for reports on agreed-upon procedures engagements dated after April 30, 1996.

Applying Agreed-Upon Procedures to Prospective Financial Statements

49. An accountant engaged to perform agreed-upon procedures on prospective financial statements should follow the guidance set forth herein and in SSAE No. 4, *Agreed-Upon Procedures Engagements*.

50. An accountant may perform an agreed-upon procedures attestation engagement to prospective financial statements²⁷ 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 prospective financial statements include a summary of significant assumptions.
- e. The prospective financial statements to which the procedures are to be applied are subject to reasonably consistent estimation or measurement.
- f. Criteria²⁸ to be used in the determination of findings are agreed upon between the accountant and the specified users.
- g. The procedures to be applied to the prospective financial statements are expected to result in reasonably consistent findings using the criteria.

²⁷ Accountants should follow guidance in SAS No. 72, *Letters for Underwriters and Certain Other Requesting Parties*, when requested to perform agreed-upon procedures on a forecast and report thereon in a letter for an underwriter (see AU section 634.43). [Footnote added, February 1993, by the issuance of SAS No. 72.]

²⁸ For example, accounting principles and other presentation criteria as discussed in chapter 8, “Presentation Guidelines,” of the AICPA Audit and Accounting Guide *Guide for Prospective Financial Information*.

- h.* Evidential matter related to the prospective financial statements to which the procedures are applied is expected to exist to provide a reasonable basis for expressing the findings in the accountant's report.
- i.* Where applicable, a description of any agreed-upon materiality limits for reporting purposes (see paragraph 27 of SSAE No. 4).
- j.* Use of the report is to be restricted to the specified users.²⁹

51. The accountant who accepts an engagement to apply agreed-upon procedures to prospective financial statements should (*a*) have adequate technical training and proficiency to apply agreed-upon procedures to prospective financial statements; (*b*) adequately plan the engagement and supervise the work of assistants, if any; and (*c*) obtain sufficient evidence to provide a reasonable basis for his report on the results of applying agreed-upon procedures.

52. Generally, the accountant's procedures may be as limited or as extensive as the specified users desire, as long as the specified users take responsibility for their sufficiency. However, mere reading of prospective financial statements does not constitute a procedure sufficient to permit an accountant to report on the results of applying agreed-upon procedures to such statements.

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

²⁹ An accountant may perform an engagement pursuant to which his report will be a matter of public record (see paragraph 33 of SSAE No. 4).

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 SSAE No. 4 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.)

Reports on the Results of Applying Agreed-Upon Procedures

54. The accountant's report on the results of applying agreed-upon procedures should be 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. Identification of the specified users
- c. Reference to the prospective financial statements covered by the accountant's report and the character of the engagement
- d. A statement that the procedures performed were those agreed to by the specified users identified in the report
- e. Reference to standards established by the American Institute of Certified Public Accountants
- f. 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
- g. A list of the procedures performed (or reference thereto) and related findings (The accountant should not provide negative assurance — see paragraph 26 of SSAE No. 4.)
- h. Where applicable, a description of any agreed-upon materiality limits (see paragraph 27 of SSAE No. 4)
- i. A statement that the accountant was not engaged to, and did not, perform an examination of prospective financial statements; a disclaimer of opinion on whether the presentation of the prospective financial statements is in conformity with AICPA presentation guidelines and on whether the underlying assumptions provide a reasonable basis for the forecast, or a reasonable basis for the projection given the hypothetical assumptions; and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported
- j. A statement of restrictions on the use of the report because it is intended to be used solely by the specified users (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.")

- k. Where applicable, reservations or restrictions concerning procedures or findings as discussed in paragraphs 35, 37, 41, and 42 of SSAE No. 4
- l. A caveat that the prospective results may not be achieved
- m. A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report
- n. Where applicable, a description of the nature of the assistance provided by a specialist as discussed in paragraphs 21 through 23 of SSAE No. 4

*[Paragraphs 53 through 55 have been deleted
as a result of the issuance of SSAE No. 4.]*

55. The following illustrates a report on applying agreed-upon procedures to the prospective financial statements.

Independent Accountant's Report
on Applying Agreed-Upon Procedures

Board of Directors — XYZ Corporation

Board of Directors — ABC Company

At your request, we have performed certain agreed-upon procedures, as enumerated below, with respect to the forecasted balance sheet and the related forecasted statements of income, retained earnings, and cash flows of DEF Company, a subsidiary of ABC Company, as of December 31, 19XX, and for the year then ending. These procedures, which were agreed to by the Boards of Directors of XYZ Corporation and ABC Company, were performed solely to assist you in evaluating the forecast in connection with the proposed sale of DEF Company to XYZ Corporation. This agreed-upon procedures engagement 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 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 examination, the objective of which would be the expression of an opinion on the accompanying prospective financial statements. Accordingly, we do not express an opinion on whether the prospective financial statements are presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

This report is intended solely for the use of the Boards of Directors of ABC Company and XYZ Corporation 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.

[Exhibit 2 has been deleted.]

Appendix B

Amendment to *Compliance Attestation*

(Amends *Statement on Standards for Attestation Engagements No. 3, Compliance Attestation, AICPA, Professional Standards, vol. 1, AT sec. 500.15–.18, .23, .24, .26, and .71 and Footnote 8.*)

This amendment results from SSAE No. 4, *Agreed-Upon Procedures Engagements*. The amendment is effective for reports dated after April 30, 1996.

Agreed-Upon Procedures Engagement

15. The objective of the practitioner's agreed-upon procedures is to present specific findings to assist users in evaluating management's assertion about an entity's compliance with specified requirements or about the effectiveness of an entity's internal control structure over compliance based on procedures agreed upon by the users of the report. A practitioner engaged to perform agreed-upon procedures on management's assertion about an entity's compliance with specified requirements or about the effectiveness of an entity's internal control structure over compliance should follow the guidance set forth herein and in SSAE No. 4, *Agreed-Upon Procedures Engagements*.

16. The practitioner's procedures generally may be as limited or as extensive as the specified users desire, as long as the specified users (a) agree upon the procedures performed or to be performed and (b) take responsibility for the sufficiency of the agreed-upon procedures for their purposes.

17. To satisfy the requirements that the practitioner and the specified users agree upon the procedures performed or to be performed and that the specified users take responsibility for the sufficiency of the agreed-upon procedures for their purposes, ordinarily the practitioner 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 practitioner is not able to communicate directly with all of the specified users, the practitioner 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 practitioner 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 SSAE No. 4 for guidance on satisfying these requirements when the practitioner is requested to add parties as specified users after the date of completion of the agreed-upon procedures.)

18. In an engagement to apply agreed-upon procedures to management's assertion about an entity's compliance with specified requirements or about the effectiveness of an entity's internal control structure over compliance, the practitioner is required to perform only the procedures that have been agreed to by users.⁸ However, prior to performing such procedures, the practitioner should obtain an understanding of the specified compliance requirements, as discussed in paragraph 19.

[Paragraphs 19 through 22 will not change.]

23. The practitioner's report on agreed-upon procedures related to management's assertion about an entity's compliance with specified requirements or about the effectiveness of an entity's internal control structure over compliance should be in the form of procedures and findings. The practitioner should not provide negative assurance about whether management's assertion is fairly stated. The practitioner's report should contain the following elements:

- a. A title that includes the word *independent*
- b. Identification of the specified users
- c. A reference to management's assertion about the entity's compliance with specified requirements, or about the effectiveness of an entity's internal control structure over compliance, including the period or point in time addressed in management's assertion,⁹ and the character of the engagement.
- d. A statement that the procedures, which were agreed to by the specified users identified in the report, were performed to assist the users

⁸ SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 322), does not apply to agreed-upon procedures engagements.

⁹ Generally, management's assertion about compliance with specified requirements will address a *period* of time, whereas an assertion about an internal control structure over compliance will address a *point* in time.

- in evaluating management's assertion about the entity's compliance with specified requirements or about the effectiveness of its internal control structure over compliance
- e. Reference to standards established by the American Institute of Certified Public Accountants
 - f. 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
 - g. A list of the procedures performed (or reference thereto) and related findings (The practitioner should not provide negative assurance — see paragraph 26 of SSAE No. 4.)
 - h. Where applicable, a description of any agreed-upon materiality limits (see paragraph 27 of SSAE No. 4)
 - i. A statement that the practitioner was not engaged to, and did not, perform an examination of management's assertion about compliance with specified requirements or about the effectiveness of an entity's internal control structure over compliance, a disclaimer of opinion on the assertion, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported
 - j. A statement of restrictions on the use of the report because it is intended to be used solely by the specified users (However, if the report is a matter of public record, the practitioner should include the following sentence: "However, this report is a matter of public record and its distribution is not limited.")
 - k. Where applicable, reservations or restrictions concerning procedures or findings as discussed in paragraphs 35, 37, 41, and 42 of SSAE No. 4
 - l. Where applicable, a description of the nature of the assistance provided by the specialist as discussed in paragraphs 21 through 23 of SSAE No. 4

24. The following is an illustration of an agreed-upon procedures report on management's assertion about an entity's compliance with specified requirements in which the procedures and findings are enumerated rather than referenced.

Independent Accountant's Report
on Applying Agreed-Upon Procedures

We have performed the procedures enumerated below, which were agreed to by *[list specified users of report]*, solely to assist the users in evaluating management's assertion about *[name of entity]*'s compliance with *[list specified requirements]* during the *[period]* ended *[date]*, included in the accompanying

[*title of management report*].^{10, 11} This agreed-upon procedures engagement 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 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 examination, the objective of which would be the expression of an opinion on management's assertion. 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 [*list or refer to specified users*] 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.

[*Paragraph 25 will not change.*]

26. The following is an illustration of an agreed-upon procedures report on management's assertion about the effectiveness of an entity's internal control structure over compliance in which the procedures and findings are enumerated rather than referenced.

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 the users in evaluating management's assertion about the effectiveness of [*name of entity*]'s internal control structure over compliance with [*list specified requirements*] as of [*date*], included in the accompanying [*title of management report*].¹² This agreed-upon procedures engagement 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 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.

¹⁰ If management's assertion is in a representation letter rather than a separate, attached report, the first sentence of this paragraph would state: "We have performed the procedures enumerated below, . . . , included in its representation letter dated [*date*]."

¹¹ If the agreed-upon procedures have been published by a third-party user (for example, a regulator in regulatory policies or a lender in a debt agreement), this sentence might begin: "We have performed the procedures included in [*title of publication or other document*] and enumerated below, which were agreed to by [*list users of report*], solely to assist the users in evaluating management's assertion about. . . ."

¹² See footnotes 10 and 11.

[Include paragraphs to enumerate procedures and findings.]

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. 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 *[list or refer to specified users]* 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.

[Paragraphs 27 through 70 will not change.]

71. Management's refusal to furnish all appropriate written representations also constitutes a limitation on the scope of the engagement that requires the practitioner to withdraw from an agreed-upon procedures engagement and issue a qualified opinion or disclaimer of opinion in an examination engagement. Further, the practitioner should consider the effects of management's refusal on his or her ability to rely on other management representations.

This Statement entitled Agreed-Upon Procedures Engagements was adopted by the assenting votes of fourteen members of the board, of whom three, Messrs. McElroy, Gerson, and Walton, assented with qualification.

Mr. McElroy qualifies his assent to paragraph 2a of this Statement because he believes that essentially the same guidance is contained in Statement on Auditing Standards (SAS) No. 75, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*, 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.

SAS No. 75 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. This Statement 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 practitioner. They believe that it is appropriate for internal audit to provide direct assistance to the practitioner, as long as the report describes the 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

Note: *Statements on Standards for Attestation Engagements are issued by the Auditing Standards Board, the senior technical body of the Institute designated to issue pronouncements on auditing matters. Rule 202 of the Institute's Code of Professional Conduct requires compliance with these standards.*