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## Comment letters proposed Statement on Auditing Standards, Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement

American Institute of Certified Public Accountants. Auditing Standards Board

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January 19, 1995

File Ref. No. 1120  
3615

To the Auditing Standards Board:

Here are the comment letters received to date on the proposed Statement on Auditing Standards, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*.

Name/Affiliation

Location

- |   |                    |
|---|--------------------|
| 1. Kevin D. Wilson  | Bronx, NY          |
| 2. Arthur Andersen, LLP   | Detroit, MI        |
| 3. George D. Funk<br>Moss Adams                                       | Seattle, WA        |
| 4. Richard D. Johnson<br>Office of Auditor of State                   | Des Moines, IA     |
| 5. Thomas H. MacTavish<br>Office of the Auditor General               | Lansing, MI        |
| 6. Margaret Kelly<br>State Auditor of Missouri                        | Jefferson City, MO |
| 7. Thomas A. Hinitz<br>Varney, Mills, Rogers, Burnett &<br>Associates | Wamego, KS         |
| 8. Richard D. Clark<br>Clark & Company, P.C.                          | Oakton, VA         |

Sincerely,



A. Louise Williamson, CPA  
Technical Manager  
Auditing Standards Division

ALW/jw

cc: Agreed-Upon Procedures Task Force

# EXPOSURE DRAFT

FILE 3615

## PROPOSED STATEMENT ON AUDITING STANDARDS

### ENGAGEMENTS TO APPLY AGREED-UPON PROCEDURES TO SPECIFIED ELEMENTS, ACCOUNTS, OR ITEMS OF A FINANCIAL STATEMENT

October 28, 1994

Comment Date: January 31, 1995

Name and Affiliation: KEVIN WILSON - UNEMPLOYED, NON-MEMBER

Comments: I AGREE WITH THE EXPOSURE DRAFT'S CONTENTS. THESE CHANGES WOULD ENABLE A COMPANIES MANAGEMENT TO INTERACT AND FOCUS THEIR ATTENTION ON CERTAIN ASPECTS OF THE ACCOUNTING SYSTEM. FOR EXAMPLE, VERIFYING THAT PURCHASES ARE HIGHER IN ONE MONTH AND VERY LOW IN ANOTHER MIGHT BE OF INTEREST. OR, MAYBE THAT SALES RETURNS OR ALLOWANCES ARE VERY SMALL MIGHT INDICATE THAT CUSTOMERS ARE VERY SATISFIED.

THESE PROCEDURES SHOULD NOT BE CONFUSED WITH COMPILATION AND REVIEW SERVICES, OR ATTESTATION ENGAGEMENTS.

WHEN ERRORS OR IRREGULARITIES EXIST WHEN AN AUDIT IS BEING CONDUCTED, FOOTNOTES SHOULD INDICATE IF ENGAGEMENTS TO AGREED UPON PROCEDURES HAVE BEEN PERFORMED IN THESE AREAS. IT SHOULD BE WELL DOCUMENTED FOR ANY MATERIAL AMOUNTS DISCOVERED. THIS WOULD INFORM THE READERS OF THE FINANCIAL STATEMENTS OF THE ACCURACY OF THE FINANCIAL DATA.

THIS STATEMENT ON AUDITING STANDARDS TO APPLY AGREED UPON PROCEDURES WILL EXPAND THE SUBJECT OF FORENSIC ACCOUNTING. WHITE COLLAR CRIME MIGHT BE DETECTED MORE EASILY. FOR EXAMPLE, MANAGEMENT MIGHT BE CONCERNED THAT

#### Instructions for Response Form

This form may be used for comments or suggestions relating to any aspect of the exposure draft that is of concern to you. For convenience, the most significant points have been identified in the summary that accompanies this exposure draft. Return this response form to the address indicated on the reverse side by the comment date.

CUT ALONG LINE

Comments (continued): THERE ARE FICTICIOUS EMPLOYEES ON THE PAYROLL OR THAT Kiting OR Lapping EXISTS. THE REPORT ON AGREED UPON PROCEDURES WOULD DOCUMENT FINDINGS AND REDUCE FRAUD, EMBEZZLEMENT, WASTE, OR INEFFICIENT DEPARTMENTS.

ON PAGE 21, NO. 44. IF SUBSTANTIAL WORK HAS BEEN DONE AND MANAGEMENT INCORRECTLY SPECIFIED AGREED UPON PROCEDURES, THE ACCOUNTANT SHOULD FINISH THAT ENGAGEMENT, AND START A NEW ENGAGEMENT FOR THE NEW ASSIGNMENT. ON THE CONTRARY, IF THE ACCOUNTANT MISINTERPRETED THE AGREED UPON PROCEDURES, HE, OR SHE WOULD BE LIABLE TO COMPLETE THE REPORT (LIK) AT NO ADDITIONAL COST TO THE COMPANY.

ON PAGE 23, THE REPORT SHOULD STATE WHAT THE AUDITORS RESPONSIBILITY IS. FOR EXAMPLE, OUR RESPONSIBILITY IS TO ANALYZE MANAGEMENT'S RECOGNITION OF THE ACCOUNTING DATA ILLUSTRATED IN THIS REPORT.

ON PAGE 20, NO. 43. IF ADDITIONAL MATTERS COME TO THE AUDITORS ATTENTION, AND ARE CONTRADICTORY TO HIS ASSIGNMENT, I THINK HE SHOULD BE RESPONSIBLE TO DECIDE TO AMEND THE PROCEDURES, AND DO ADDITIONAL TESTING AND DISCUSS THE ADDITIONAL WORK WITH THE AUDIT COMMITTEE, AND BE PAID PROPERLY FOR HIS SERVICES

Return responses to:  
AICPA

A. Louise Williamson, Technical Manager  
Auditing Standards Division, File 3615  
1211 Avenue of the Americas  
New York, NY 10036-8775

December 9, 1994

Ms. A. Louise Williamson, Technical Manager  
Auditing Standards Division, File 3615  
American Institute of CPAs  
1211 Avenue of the Americas  
New York, NY 10036-8775

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Arthur Andersen LLP

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Suite 2700  
500 Woodward Avenue  
Detroit MI 48226-3424  
313 596 9000

Dear Ms. Williamson:

This letter sets forth our comments on the October 28, 1994 exposure draft (ED) of the proposed Statement on Auditing Standards entitled *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*.

#### General comments

It seems to us that the Board's objective ought to be to produce a standard which provides helpful guidance, will cause practitioners to use it (not avoid it), is easily adaptable to the various types of these engagements, and is not too long or complex. The proposed standard, along with its companion, falls well short of meeting this objective. As a result, the profession will have two standards to worry about for the same kind of engagements. Many of these engagements include financial statements elements or accounts (which are covered by the SAS ED), and also include non-financial statement matters (covered by the SSAE ED). Although the two EDs are similar, they are not identical, and the poor practitioner is left to figure out what to do. This approach will cause confusion, lead to practice problems, and in the final analysis, is probably not workable.

We believe this standard and its companion should be combined into one, user-friendly standard, and all the forced, awkward language regarding written assertions and specific subject matter eliminated.

#### Specific comments

1. Paragraph 3. - The use of the word "specific" (or "specified") three times in the first sentence really seems like overkill. We suggest you delete the second reference; this would then also be consistent with the other proposed standard.
2. Paragraph 3. - This entire paragraph describes an agreed-upon procedures engagement in the present tense. Accordingly, the phrase "should be" in the last sentence should be changed to "is."

Ms. A. Louise Williamson, Technical Manager

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3. Paragraph 6. - The last sentence indicates that the procedures "generally recite the criteria..." In most cases, won't the criteria be described in the schedule that presents the specified element or account?
4. Paragraph 7. - We suggest you delete the phrase "or in the auditor's report" in the first sentence. This would tend to drive practice towards the use of a separate schedule, consistent with the notion of separating management's assertion from the auditor's report. If this change is not made, then shouldn't a representation letter be required, to support the fact that management is responsible for the element or account?
5. Paragraph 9e. - This says the engagement can be undertaken only if evidential matter is expected to exist. We disagree. In some engagements, the objective is to determine whether evidential matter exists, and the lack of evidence is the finding.
6. Paragraphs 9b and 10. - Paragraph 9b calls for the specified users to "participate in establishing the procedures," but the discussion in paragraph 10 really seems to focus on the requirement for the specified users to take responsibility for the sufficiency of the procedures. Perhaps paragraph 9b and paragraph 10 should only require that the specified users take responsibility for the sufficiency of the procedures.
7. Paragraph 11. - We believe that the ED should require engagement letters for agreed-upon procedures engagements, instead of just establishing a preference for them. We fail to see how an auditor can "... establish a clear understanding regarding the terms of the engagement ..." without doing so in an engagement letter. Further, an engagement letter is particularly important for agreed-upon procedures engagements as is obvious from the list of suggested contents (acknowledgement of responsibility, agreement on procedures, assistance to be provided, agreed-upon materiality limits).
8. Paragraph 15. - Since the auditor is not rendering assurance on the results of the agreed-upon procedures, do we really need to require the auditor to have "adequate knowledge" for these engagements? This paragraph could present a litigation risk since that phrase is vague and unclear.
9. Paragraph 16. - The last sentence isn't quite correct since the nature, timing and extent is all-inclusive. We suggest that the last sentence be deleted and the preceding sentence read as follows: "In general, there is great flexibility in determining the nature, timing and extent of the procedures as long as the specified users acknowledge responsibility for the sufficiency of such procedures for their purposes."

# ARTHUR ANDERSEN

ARTHUR ANDERSEN & CO. SC

Ms. A. Louise Williamson, Technical Manager

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10. Paragraph 17. - We fail to see the reason for the reference to paragraph 39 (on restrictions) in this paragraph, which deals with overly subjective procedures. Also, the last sentence seems rather obvious, and could be deleted.
11. Paragraph 20. - This paragraph will be a problem in practice, and will lead to "shopping" between the standards (for example, by those who do not want to issue a written assertion). By taking an attestation engagement on controls, and adding one or more procedures on an element, no assertion is required?
12. Paragraph 20. - If this paragraph is retained, it seems to us that the discussion about applying agreed-upon procedures to internal control should be covered earlier in the document, perhaps as part of the definition of specified elements, accounts or items. Also, the following should be added at the end of the first sentence to avoid any misunderstanding: "...relating to the specified elements, accounts or items to which the procedures are applied."
13. Paragraph 21. - Given the discussion in paragraph 23, the first sentence probably should read, "Except as discussed in paragraph 23, the agreed-upon procedures to be enumerated...."
14. Paragraph 26. - The first two sentences would read better if worded as follows: "An auditor should present the results of the agreed-upon procedures solely in the form of findings. That is, the auditor should not provide negative assurance about whether the specified elements, accounts or items (taken as a whole?) are fairly stated in relation to established or stated criteria."
15. Paragraph 30. - We suggest deleting this paragraph since the examples really are unnecessary. If deemed useful, they should be included in the Appendix. If the Board decides to make neither of these changes, it should consider changing the second procedure, which is backwards from the usual situation. Normally, it's not the "over 90 day" column which is tested, it's the other columns to see whether amounts have been excluded from the "over 90 days" column.
16. Paragraph 35. - In sub-paragraph k, it is presently unclear what the relationship is between the phrase "Where applicable" and the reference to paragraph 20. You might consider changing to "Where applicable (see paragraph 20), a disclaimer ...."
17. Footnote 11. - We don't see the need for this footnote, and suggest that it be deleted. If the Board decides to retain it, the wording should be carefully considered. For example, it seems to us that the objective of a review is either to provide negative assurance, or to

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- provide the accountant with a reasonable basis for expressing limited assurance (both of which are different from expressing limited assurance). Further, the term limited assurance comes from the SSARS literature, whereas AT 100.56-.58 (which is the applicable guidance in this case) uses the term negative assurance.
18. Footnote 12. - Doesn't this footnote need to call attention to the fact that, as discussed in paragraph 49, since the agreed-upon procedures report is restricted, the document itself would also have to be similarly restricted?
  19. Paragraphs 35c and 36. - We don't understand the phrase "character of the engagement" which is at the end of the first sentence of the illustrative report. Does it refer to the agreed-upon procedures engagement? If so, that is described in the following sentence.
  20. Paragraph 35. - We believe that a sub-paragraph "n" should be added, to require a comment that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report. This is particularly important in view of the guidance in paragraphs 40 and 38.
  21. Paragraph 41. - The second sentence says the need for a representation letter may depend on the nature of the engagement and the specified users, but provides no guidance as to what that means. We don't understand why a representation letter is not required, just as it is in the recently issued SSAE No. 3 for agreed-upon procedures engagements over compliance or controls over compliance.
  22. Paragraph 42. - We don't understand the intent of the guidance in sub-paragraph b, that is "change the nature of the engagement." Does this mean change it to an audit or review? To a "consulting" engagement? We believe this should be deleted.
  23. Paragraph 43. - The example in the last sentence fails to get the message across very well. In this case, the discovery relates to the performance of the agreed-upon procedure. Isn't the intent to say that if an auditor is performing procedures on specific subject matter related to an account, but not all the subject matter related to that account, and finds a problem in the account which is unrelated to the specific subject matter, he or she needs to report it?
  24. Footnote 14. - We don't understand the parenthetical reference "(or has been engaged to perform)." How can an auditor make reference in an agreed-upon procedures report to an audit report which hasn't even been issued (or the audit not even performed)? Further, the guidance in the footnote uses the phrase "should consider"; paragraph 43



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ANDERSEN

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Ms. A. Louise Williamson, Technical Manager

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uses the phrase "ordinarily should." It is troubling that there are two different actions for what could be the same situation.

We would be pleased to discuss any of our comments with the Board or the staff at their convenience.

Very truly yours,

*Arthur Andersen LLP*

# EXPOSURE DRAFT

FILE 3615

## PROPOSED STATEMENT ON AUDITING STANDARDS

### ENGAGEMENTS TO APPLY AGREED-UPON PROCEDURES TO SPECIFIED ELEMENTS, ACCOUNTS, OR ITEMS OF A FINANCIAL STATEMENT

October 28, 1994

Comment Date: January 31, 1995

Name and Affiliation:

Comments:

GEORGE D. FUNK, MOSS ADAMS, 1001 - 4TH Ave., Seattle, WA 98254 1199

1) Appears to be an inconsistency between par. 20 and par 05 of SSAE No. 2, in that SSAE NO. 2 requires a written management assertion and par. 05 does not.

2) If a report is reissued as contemplated in par. 40, consider acknowledgement of the reissuance in the second report.

3) As to footnote 14

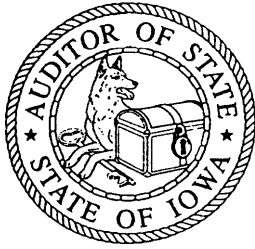
- when does an element "relate" to a financial statement; i.e. common dates, same amount, last audit report issued, etc.?

- refers to a departure from a standard report. Would it be better to refer to a "qualified opinion", or a qualified opinion particular to the specified element? Why would an emphasis paragraph (e.g. going concern) cause a required reference condition?

4) Par. 40: Under some circumstances, a combined report would be tantamount to a "piecemeal" opinion. Also, does this modify par. 32 of SSARS 1?

#### Instructions for Response Form

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OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

Richard D. Johnson, CPA  
Auditor of State

4

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

December 28, 1994

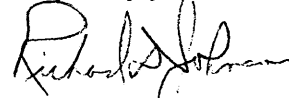
A. Louise Williams, Technical Manager  
Auditing Standards Division, Tile 3615  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Re: **ED - "Engagements to Apply Agreed-Upon  
Procedures to Specified Elements,  
Accounts, or Items of a Financial  
Statement"**

- ¶1. The last sentence of note one is significant. We would like to see this in the first paragraph rather than in a note.
- ¶10. We question whether the first listed procedure would satisfy that requirement.
- ¶11. The essence of the proposed statement is that there is agreement as to the procedures to be performed. We believe that the understanding should be in writing.

Should you have any questions as to the above you may write or call Don Meadows at this address or 515-281-5538.

Very truly yours,



Richard D. Johnson

RDJ/sc



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

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December 28, 1994

Ms. A. Louise Williamson, Technical Manager  
Auditing Standards Division (File 3615)  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Williamson:

We have reviewed the AICPA Exposure Draft of the proposed Statement on Auditing Standards, entitled Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement, and submit the following comments for consideration by the Auditing Standards Board (Board). Although some of our comments are more important than others, we have presented them in paragraph sequence to simplify your review process.

1. The second sentence of Paragraph 5 states that "The auditor 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." For consistency with the format of the first sentence of Paragraph 5, we suggest that the second sentence be revised to read "The auditor also should follow the interpretative guidance relating to the application of the third standard of fieldwork (sufficient competent evidential matter), and also should follow the reporting standards as addressed in this Statement."
2. Paragraph 9.f. states that "The auditor may perform an engagement under this Statement provided that...use of the report is restricted to the specified users." Reports prepared by many government auditors are considered to be public documents in accordance with freedom of information statutes and other rules or regulations. Therefore, to ensure that all government auditors may perform agreed-upon procedures engagements in accordance with this final Statement, we strongly recommend that the Board revise Paragraph 9.f. to read "The auditor may perform an engagement under this Statement provided that...use of the report is restricted to the specified users, unless otherwise provided for by government statute, rule, or regulation." Other references to the restricted use of the auditor's report, such as in Paragraph 4, may require similar revision.

Ms. A. Louise Williamson

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3. The second sentence of Paragraph 10, which introduces four separate procedures, states that "...the auditor may satisfy the requirement that the specified users take responsibility for the sufficiency of the agreed-upon procedures by applying any one of the following or similar procedures:" After reviewing this paragraph, we believe that the auditor could typically apply more than one of the procedures. For example, the auditor might discuss the procedures to be applied with representatives of the users, then also distribute a draft of the anticipated report to the users with a request for their comments. Therefore, we suggest that the second sentence of Paragraph 10 be revised to read "...the auditor may satisfy the requirement that the specified users take responsibility for the sufficiency of the agreed-upon procedures by applying one or more of the following or similar procedures:"
4. The first two sentences of Paragraph 11 state that "The auditor 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 other specified users." However, the proposed Statement does not provide guidance for those circumstances in which the auditor should also address the engagement letter to other specified users. We suggest that Paragraph 11 be expanded to provide guidance (including examples) on specific circumstances which would warrant including other specified users in the address of the engagement letter.
5. Paragraphs 13-15 address the auditor's responsibility in an agreed-upon procedures engagement. Paragraphs 13 and 15 relate to the auditor's responsibility in accordance with applicable general, fieldwork, and reporting standards. Paragraph 14 relates to the differences in responsibility between an agreed-upon procedures engagement and another form of engagement. To improve the readability and consistency of the final Statement, we suggest that Paragraphs 14 and 15 be reversed so that the narrative in Paragraph 15 will immediately follow the narrative in Paragraph 13.
6. Paragraph 19 states that "Examples of inappropriate procedures include...mere reading of specified information." On the same page, Footnote 8 (referenced in Paragraph 16) states that "However, mere reading of specified information does not constitute a procedure sufficient to permit an auditor to report on the results of applying agreed-upon procedures to one or more specified elements, accounts, or items of a financial statement." We believe that the information in Footnote 8 is clearly redundant with the guidance in Paragraph 19. Therefore, to avoid confusing the auditor, we suggest that Footnote 8 be deleted in the final

Statement. If the Board believes that Footnote 8 provides a more detailed explanation, we suggest that the narrative in Footnote 8 be included within Paragraph 19.

7. Paragraphs 21 and 22 illustrate the potential involvement of internal auditors in the engagement. The last two sentences of Paragraph 21 state "Also, internal auditors may perform and report separately on procedures that they have carried out. Such procedures may be similar to those that an auditor may perform under this Statement." Professional standards for internal auditors are promulgated by the Institute of Internal Auditors (IIA); therefore, this information is irrelevant to the guidance in the proposed Statement. Because internal auditing standards should never be confused with the AICPA professional standards, and because of professional courtesy to the IIA and its members, we suggest that the last two sentences in Paragraph 21 be deleted in the final Statement. As an alternative, these two sentences could be replaced by one sentence, referring to the IIA, such as "In accordance with the Institute of Internal Auditors' professional standards, internal auditors may perform and report separately on procedures they have carried out."
8. Paragraph 29 states that "The auditor 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 materiality is defined by the specified users when agreeing to the procedures to be performed. Any agreed-upon materiality limits should be described in the auditor's report." As currently written, Paragraph 29 does not properly emphasize the importance of defining appropriate materiality limits when the specified users are agreeing to the procedures to be performed. Without defining appropriate materiality limits, the auditor could be required to report insignificant findings of less than one dollar. To alert the auditor of the importance of defining materiality, we strongly suggest that the Board revise the second and third sentences of Paragraph 29 to read "Because the concept of materiality does not apply to findings to be reported in an engagement to apply agreed-upon procedures unless materiality is defined by the specified users when agreeing to the procedures to be performed, it is very important that those users define appropriate materiality limits. The agreed-upon materiality limits should be described in the auditor's report."
9. The last sentence of the illustrative report in Paragraph 36 states "This report is intended solely for the use of the specified users listed above and should not

be used by those who did not agree to the procedures." Based on the guidance throughout the proposed Statement (e.g., Paragraph 10 and Paragraph 11) that the specified users must take responsibility for the sufficiency of the procedures, we believe that the more limited exclusion of users 'who did not agree to the procedures' is inappropriate and inconsistent language. Therefore, we strongly suggest that the Board revise the last sentence of the illustrative report in Paragraph 36 (and in the other examples throughout the final Statement) to read "This report is intended solely for the use of the specified users listed above and should not be used by those who did not take responsibility for the sufficiency of the procedures."

10. Paragraph 37 states that the auditor may include explanatory language in the report regarding matters such as explanations of sampling risk, disclosures of stipulated facts, assumptions, or interpretations, or descriptions of the condition of records, controls, or data to which the auditor applied procedures. To provide more comprehensive guidance for the auditor in developing his or her report, we suggest that Paragraph 37 be expanded to provide illustrations of the explanatory language.
11. Paragraph 38 states that "The date of completion of the agreed-upon procedures should be used as the date of the auditor's report." However, the proposed Statement does not address the auditor's responsibility for subsequent events (such as a potentially material adjustment to an account) which might occur between the completion of the agreed-upon procedures and the issuance of the auditor's report. We strongly suggest that the Board expand the guidance in the final Statement to specifically address the auditor's responsibility for subsequent events in an agreed-upon procedures engagement.
12. We have three specific concerns with Paragraph 40, which states:

The auditor may be requested to add parties who were not originally contemplated in the engagement as specified users. If the addition of new parties is requested after the date of completion of the agreed-upon procedures, but before or after the report is issued, and those parties did not participate in determining or agreeing on the procedures, the auditor may add those parties as specified users provided that such parties acknowledge responsibility for the sufficiency of the procedures. The auditor normally should obtain written acknowledgement from such added specified users concerning their responsibilities and other pertinent matters relating to the

engagement, such as the fact that the auditor has performed no additional procedures since the date of his or her report. The auditor may acknowledge that a party has been added as a specified user or may reissue his or her report. Upon reissuance, the auditor should date his or her report in accordance with paragraph 38 of this Statement.

First, we are confused with the time frame in the first portion of the second sentence, which states "If the addition of new parties is requested after the date of completion of the agreed-upon procedures, but before or after the report is issued,...." We believe that the date the auditor completes the procedures is irrelevant. The more important date, in terms of adding new parties to the engagement, is the date that the other specified users took responsibility for the sufficiency of the procedures in the engagement. Therefore, we suggest that the first portion of the second sentence of Paragraph 40 be revised to read "If the addition of new parties is requested after the date the other users took responsibility for the sufficiency of the procedures, but before or after the report is issued,...."

Second, the third sentence of Paragraph 40 states that "The auditor normally should obtain written acknowledgement from such added specified users...." Although we agree that written documentation in the auditing profession is always advantageous, we are concerned that the 'written acknowledgement' in the third sentence sets a higher requirement for added users than for specified users elsewhere in the proposed Statement (e.g., Paragraph 10). For consistency, we suggest that the third sentence of Paragraph 40 be revised to read "The auditor normally should obtain acknowledgement from such added specified users...." As an alternative, the Board could require written acknowledgement from all specified users throughout the document.

Finally, the fourth and fifth sentences of Paragraph 40 state that "The auditor may acknowledge that a party has been added as a specified user or may reissue his or her report. Upon reissuance, the auditor should date his or her report in accordance with paragraph 38 of this Statement." Because Paragraph 38 merely states that "The date of completion of the agreed-upon procedures should be used as the date of the auditor's report," the guidance in Paragraph 40 appears to be incomplete and may confuse the auditor. For example, in what manner would the auditor acknowledge that a party has been added as a specified user? Also, how would the auditor distinguish the reissued report from the original report



without guidance in the proposed Statement for subsequent or dual dating of the report? We strongly suggest that the Board expand the narrative in Paragraph 40 to provide more comprehensive guidance for the auditor (1) in acknowledging that a party has been added as a specified user, and (2) in reissuing his or her report. Perhaps the fifth sentence should not only refer to Paragraph 38 of the proposed Statement but also to Codification Sections AU 530.01-530.08, which specifically address reissuing and dating the auditor's report.

13. Paragraph 42 states that "The responsible party's refusal to furnish written representations determined by the auditor to be appropriate for the engagement constitutes a limitation on the performance of the engagement. In such circumstances, the auditor should do one of the following: a. Disclose in his or her report the inability to obtain representations from the responsible party. b. Change the nature of the engagement. c. Withdraw from the engagement." We feel that refusal to furnish written representations is so significant to the engagement that option b., merely changing the nature of the engagement, is not an appropriate remedy for the auditor to consider. We believe that the auditor should either disclose in his or her report the inability to obtain representations and to adequately apply procedures or withdraw from the engagement. Therefore, we suggest that the second sentence of Paragraph 42 be revised and shortened to read "In such circumstances, the auditor should do either of the following: a. Disclose in his or her report the inability to obtain representations from the responsible party and, therefore, his or her inability to adequately apply procedures. b. Withdraw from the engagement."
14. Paragraph 49 states that "Reports on applying agreed-upon procedures to specified elements, accounts, or items of a financial statement may be included or combined with reports on...other services, provided the types of services can be clearly distinguished and the applicable standards for each service are followed." Because including or combining a report on applying agreed-upon procedures with a report on an audit, review, or compilation can be an extremely complex undertaking for the auditor, we strongly suggest that the Board include an illustrative example(s) of a combined report in the Appendix of the final Statement.
15. Paragraph 50 states that "The effective date for this Statement is for reports on engagements to apply agreed-upon procedures dated on or after June 30, 1995. Earlier application is encouraged." The time required to complete these types of engagements can vary greatly, depending on individual circumstances. Therefore, from a practical perspective, we believe that it is much more appropriate to tie

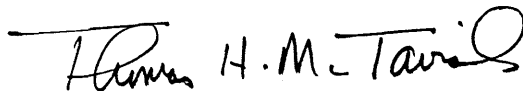
Ms. A. Louise Williamson  
Page 7  
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the effective date of the final Statement to the starting date of the engagement, rather than to the date of the auditor's report. We strongly suggest that Paragraph 50 be revised to read "The effective date for this Statement is for engagements to apply agreed-upon procedures started on or after June 30, 1995. Earlier application is encouraged."

16. The second paragraph of Procedure No. 2 (Accounts Receivable), in the illustrative report on Page 23 of the Appendix, merely states "We found no difference." For consistency with the other illustrative reports in the Appendix, we suggest that this paragraph be expanded to read "We found no difference between the aged trial balance and the general ledger account."

We appreciate the opportunity to comment on the Exposure Draft. Should you have any questions, or desire further details on our comments, please contact me or Jon A. Wise, C.P.A., Director of Professional Practice.

Sincerely,



Thomas H. McTavish, C.P.A.  
Auditor General

6



STATE AUDITOR OF MISSOURI  
JEFFERSON CITY, MISSOURI 65102

MARGARET KELLY, CPA  
STATE AUDITOR

(314) 751-4824

January 4, 1995

Ms. A. Louise Williamson  
Technical Manager  
American Institute of Certified  
Public Accountants  
Auditing Standards Division, File 3615  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Williamson:

Enclosed are our comments on the proposed Statement on Auditing Standards Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement and the proposed Statement on Standards for Attestation Engagements Agreed-Upon Procedures Engagements.

If you have any questions regarding our comments, please contact Myrana Gibler, Audit Manager, of my office at (314) 751-4213.

Sincerely,

A handwritten signature in cursive script that reads "Margaret Kelly".

Margaret Kelly, CPA  
State Auditor

Enclosures

**COMMENTS - PROPOSED STATEMENT ON AUDITING  
STANDARDS AND PROPOSED STATEMENT ON STANDARDS  
FOR ATTESTATION ENGAGEMENTS**

The Office of Missouri State Auditor appreciates the opportunity to comment on the proposed Statement on Auditing Standards (SAS) Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement and the proposed Statement on Standards for Attestation Engagements (SSAE) Agreed-Upon Procedures Engagements. We generally support the issuance of the two Statements to help ensure a more consistent approach to such engagements than now exists and to provide guidance on issues not addressed in the current standards. However, we also offer the following suggestions for improvements to the documents.

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

**SPECIFIED ELEMENTS, ACCOUNTS, OR ITEMS OF A FINANCIAL  
STATEMENT AND RELATED SUBJECT MATTER**

paragraphs 6-7 - Although paragraph 6 uses the term "financial statement" several times, that term is not defined until paragraph 7, footnote 7. We believe the footnote reference would be more logically placed at the end of the first sentence of paragraph 6. If that change is made, the phrase "such as when the basis of accounting is generally accepted accounting principles" at the end of the fifth sentence of paragraph 6 could be deleted, since the footnote mentions bases of accounting.

**NATURE, TIMING, AND EXTENT OF PROCEDURES**

**Procedures to Be Performed**

paragraph 19 - Corresponding paragraph 20 of the proposed SSAE lists the item "Evaluating the competency or objectivity of another party," which should be considered for inclusion in paragraph 19 of the proposed SAS.

**APPENDIX**

We suggest the appendix be expanded to include examples of the additional disclosures referred to in paragraphs 37, 39, 42, and 43. This information would be more useful to us than the appendix's second example, which is similar to the first example, a report with no modifications.

**Proposed SSAE, Agreed-Upon Procedures Engagements**

**REPORTING**

**Required Elements**

paragraph 35 - We suggest that items b. and c. be reversed to agree with the order in which the information appears in the illustrative report at paragraph 36 and to be consistent with the listing of the related items in paragraph 35 of the proposed SAS.

**Illustrative Report**

paragraph 36 - Examples of the additional disclosures referred to in paragraphs 37, 39, 43, and 44 would also be helpful.

**PROPOSED AMENDMENT TO "FINANCIAL FORECASTS AND PROJECTIONS"**

paragraph 52 - During our review of the proposed amendment to SSAE No. 3 on page 31, we noted that footnote 7 to paragraph 16 was deleted, presumably because the insufficiency of merely reading an assertion or specified information as the basis for reporting on agreed-upon procedures is discussed in footnote 7 to paragraph 17 of the proposed SSAE Agreed-Upon Procedures Engagements. Therefore, we suggest the need for the second sentence of paragraph 52 be reconsidered, since that sentence is similar to the footnote deleted in SSAE No. 3.

**PROPOSED AMENDMENT TO COMPLIANCE ATTESTATION**

paragraph 26 - This example does not include the paragraph regarding restrictions on use of the report, unlike the example in paragraph 25.

**OTHER COMMENTS**

We agree with the Auditing Standards Board's decision to issue two Statements mirroring each other. We believe this option will be less confusing to practitioners than other options discussed earlier in the project's history--e.g., having one dominant SAS on agreed-upon procedures engagements with a simplified SSAE that cross references to the SAS.

However, during our comparison of the two proposed Statements, we noted minor differences for which there were no apparent reasons; we have marked these differences on the enclosed drafts. Also, we noted similar differences when we compared the proposed amendments to existing SSAEs with the related provisions

of the proposed SSAE Agreed-Upon Procedures Engagements. We believe related information should be presented as consistently as possible.

We also marked several other suggested editorial revisions on the enclosed drafts. In addition, we suggest all authoritative references throughout the two documents be reviewed for consistency and completeness. We noted various formats for references (e.g., "SSAE No. 3, AT sec. 500.09" in paragraph 10.i. of the proposed SSAE Agreed-Upon Procedures Engagements and "Paragraphs 18 and 19 of SSAE No. 3" later in footnote 6 to paragraph 16 of the document). Also, paragraph 8's reference to SSAE No. 3 omits a specific section number(s) unlike other references throughout the documents.

# **EXPOSURE DRAFT**

## **PROPOSED STATEMENT ON AUDITING STANDARDS**

### **ENGAGEMENTS TO APPLY AGREED-UPON PROCEDURES TO SPECIFIED ELEMENTS, ACCOUNTS, OR ITEMS OF A FINANCIAL STATEMENT**

*( To Supersede SAS No. 35, **Special Reports — Applying  
Agreed-Upon Procedures to Specified Elements, Accounts,  
or Items of a Financial Statement** )*

**OCTOBER 28, 1994**

**Prepared by the AICPA Auditing Standards Board for comment  
from persons interested in auditing**

**Comments should be received by January 31, 1995, and addressed to  
A. Louise Williamson, Technical Manager, Auditing Standards Division, File 3615,  
AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775**

---

This exposure draft has been sent to —

- Members who have asked to receive a copy of every exposure draft issued by one or more components of the AICPA.
  - Members of AICPA Council and technical committees.
  - State society and chapter presidents, directors, and committee chairpersons, with sufficient copies for the members of the committee that would normally be expected to comment.
  - Organizations concerned with regulatory, supervisory, or other public disclosure of financial activities.
  - Selected industry associations.
  - Members and others who ask to receive a copy.
- 

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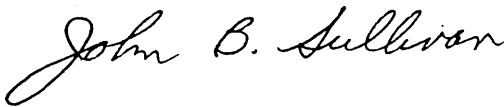
October 28, 1994

Accompanying this letter is an exposure draft, approved by the Auditing Standards Board, of a proposed statement on auditing standards that, when final, would supersede Statement on Auditing Standards No. 35, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*. A summary of the significant provisions of the proposed Statement accompanies this letter.

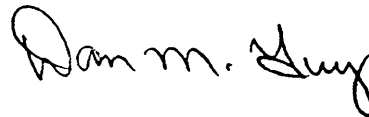
Comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Auditing Standards Board's consideration of responses, comments should refer to specific paragraphs and include supporting reasons for each suggestion or comment.

Written comments on the exposure draft will become part of the public record of the AICPA Auditing Standards Division and will be available for public inspection at the offices of the AICPA after March 1, 1995, for one year. Responses should be sent to A. Louise Williamson, Technical Manager, Auditing Standards Division, File 3615, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775 in time to be received by January 31, 1995.

Sincerely,



John B. Sullivan  
Chair  
Auditing Standards Board



Dan M. Guy  
Vice President, Auditing

## SUMMARY

### ***Why Issued***

The Auditing Standards Board (ASB) is considering the issuance of a statement on auditing standards to provide guidance to auditors on performing and reporting on applying agreed-upon procedures to specified elements, accounts, or items of a financial statement. The ASB has observed that there is diversity in practice in performing and reporting on these engagements, and that the existing guidance does not address a number of issues auditors should consider. In addition, the ASB has concluded that negative assurance should be eliminated from reports on engagements covered by the Statement.

### ***What It Does***

The proposed Statement provides guidance to assist the auditor in understanding—

- a. The nature of an engagement to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement.
- b. Conditions for performance of an engagement to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement.
- c. The nature, timing, and extent of procedures, including the involvement of internal auditors and others.
- d. The responsibilities of the auditor and the specified users.
- e. How to report procedures performed and related findings.

### ***How It Affects Existing Standards***

The proposed Statement would supersede Statement on Auditing Standards (SAS) No. 35, *Special Reports — Applying Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement* (AICPA, *Professional Standards*, vol. 1, AU sec. 622). Furthermore, as a consequence of superseding SAS No. 35, the proposed Statement would require conforming changes to certain SASs and related Interpretations and to the Attest Interpretation "Responding to Requests for Reports on Matters Relating to Solvency" (AICPA, *Professional Standards*, vol. 1, AT sec. 9100.33–.44). In addition, it would require updating the guidance in the following:

- a. Statements on Auditing Standards
  - (1) SAS No. 26, *Association With Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 504)
  - (2) SAS No. 62, *Special Reports* (AICPA, *Professional Standards*, vol. 1, AU sec. 623)
  - (3) SAS No. 70, *Reports on the Processing of Transactions by Service Organizations* (AICPA, *Professional Standards*, vol. 1, AU sec. 324)
  - (4) SAS No. 72, *Letters for Underwriters and Certain Other Requesting Parties* (AICPA, *Professional Standards*, vol. 1, AU sec. 634)

b. Audit and Accounting Guides

- (1) *Audits of Banks*
- (2) *Audits of Credit Unions*
- (3) *Audits of Employee Benefit Plans*
- (4) *Audits of Property and Liability Insurance Companies*
- (5) *Audits of Savings Institutions*
- (6) *Audits of Service-Center-Produced Records*
- (7) *Personal Financial Statements Guide*

c. Statement of Position (SOP) 90-6, *Directors' Examinations of Banks* (appendix H to Audit and Accounting Guide *Audits of Banks*)

***Independence***

Commentators to this proposed Statement should be aware that auditors performing an engagement on the application of agreed-upon procedures under the auditing standards must be *independent* pursuant to rule 101 of the *Code of Professional Conduct* (AICPA, *Professional Standards*, vol. 2, ET sec. 101).

***Relationship to Attestation Standards***


Commentators to this proposed Statement should also be aware that, concurrent with exposure of this proposed Statement, the ASB has issued an exposure draft of a statement on standards for attestation engagements (SSAE) for agreed-upon procedures engagements falling under those standards.

The proposed SSAE addresses a number of issues that also are being addressed in this proposed Statement. The significant difference is that, since the proposed SAS deals with specified elements, accounts, or items of a financial statement, the presence of a written assertion as a condition of engagement performance is not required.

The ASB believes a written assertion is not required in an engagement to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement, because assertions are effectively embodied in such specified elements, accounts, or items of a financial statement when the basis of accounting is clearly evident.

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Note: On the following pages the symbol  means "delete." Also, comments to explain editorial changes are provided.

PROPOSED STATEMENT ON AUDITING STANDARDS

ENGAGEMENTS TO APPLY AGREED-UPON PROCEDURES TO SPECIFIED ELEMENTS, ACCOUNTS, OR ITEMS OF A FINANCIAL STATEMENT

Not necessary to spell out in para. 2.b. if spelled out in footnote 1.

INTRODUCTION AND APPLICABILITY

1. This Statement sets forth standards and provides guidance to an auditor<sup>1</sup> 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 of this Statement.

2. This Statement does not apply to —

a. Situations in which a practitioner 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. XX, *Agreed-Upon Procedures Engagements*.

X

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 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 *Government Auditing Standards*, the Single Audit Act of 1984, Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*, or OMB Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*. However, when an auditor undertakes an engagement to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement for the benefit of a governmental body or agency, meeting the conditions for engagement performance specified in paragraph 9 of this Statement, the auditor is obliged to follow this Statement as well as any applicable governmental requirements.<sup>2</sup>

application

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.)

wordy

Consider spelling out the term since it first appears in footnote 1. Statement on Auditing Standards

X

<sup>1</sup> For purposes of this Statement, the term *auditor* 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, "Responsibilities and Functions of the Independent Auditor"* (AICPA, *Professional Standards*, vol. 1, AU sec. 110.03). An auditor 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.

<sup>2</sup> Reporting under *Government Auditing Standards* and the Single Audit Act, as defined in OMB Circulars A-128 and A-133, is addressed in paragraphs 20 through 95 of SAS No. 68, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance* (AICPA, *Professional Standards*, vol. 1, AU sec. 801). Commentators to this Statement should be aware that the Auditing Standards Board (ASB) also is considering the issuance of a statement on auditing standards that would supersede SAS No. 68.

- e. Engagements covered by SAS No. 72, *Letters to Underwriters and Certain Other Requesting Parties* (AICPA, *Professional Standards*, vol. 1, AU sec. 634).<sup>3</sup>

*This word may not be necessary since "specified" is used later in the sentence.*

**ENGAGEMENTS TO APPLY AGREED-UPON PROCEDURES**

3. An engagement to apply agreed-upon procedures is one in which an auditor 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 auditor to assist users in evaluating specified elements, accounts, or items of a financial statement as a result of a need or needs of the client and any additional users of the report. Because users require that findings be independently derived, the services of an auditor are obtained to perform procedures and report his or her findings. The users and the auditor agree upon the procedures to be performed by the auditor 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 auditor does not perform an audit<sup>4</sup> and does not provide an opinion or negative assurance (see paragraphs 26 and 27 of this Statement) relating to the fair presentation of the specified elements, accounts, or items of a financial statement. Instead, the auditor's report on agreed-upon procedures should be in the form of procedures and findings. (See paragraph 35 of this Statement.)

4. As a consequence of the users' role in establishing the procedures to be performed, an auditor'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 auditor in an engagement to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement. The auditor also should follow the interpretative guidance relating to the application of the

*Also,*

*See proposed SSAE, footnote 4.*

*This phrase is used twice in the sentence.*

*will*

<sup>3</sup> Commentators to this Statement should be aware that the ASB also is considering the issuance of a proposed Omnibus Statement on Auditing Standards and Statement on Standards for Attestation Engagements — 1994 that would amend paragraph 9 of SAS No. 72. If the proposed amendment is issued, the following footnote would be included in this Statement:

SAS No. 72, *Letters for Underwriters and Certain Other Requesting Parties*, identifies, in paragraphs 3 through 5, certain parties who may request a comfort letter. When one of those parties requests a comfort letter or asks the accountant to perform agreed-upon procedures on elements, accounts, or items of a financial statement in connection with an offering, the accountant should follow the guidance in SAS No. 72 (AICPA, *Professional Standards*, vol. 1, AU sec. 634.03-.09, .35-.40, and .44-.59).

<sup>4</sup> For guidance on expressing an opinion on specified elements, accounts, or items of a financial statement based on an audit, see SAS No. 62, *Special Reports* (AICPA, *Professional Standards*, vol. 1, AU sec. 623.11-.18). For guidance when reporting on a review of specified elements, accounts, or items of a financial statement, see SSAE No. 1, *Codification of Statements on Standards for Attestation Engagements*, "Attestation Standards" (AICPA, *Professional Standards*, vol. 1, AT sec. 100.56-.58).

as well as

X third standard of fieldwork, and also should follow the reporting standards as addressed in this Statement.<sup>5</sup>

### 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, summarization, or mathematical computation.<sup>6</sup> 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 auditor's procedures are applied (referred to in this Statement as *specific subject matter*). The procedures enumerated or referred to in the auditor's report generally recite the criteria against which the specific subject matter is to be measured in deriving a finding.

See proposed SSATC para. 6.

underlined portion in italics agreed-upon to be

specific X

7. The specified element, account, or item of a financial statement<sup>7</sup> may be presented in a schedule or statement, or in the auditor'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.

<sup>5</sup> In an engagement to apply agreed-upon procedures, an auditor 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.

<sup>6</sup> 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.

<sup>7</sup> 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 auditor may perform an engagement under this Statement provided that—
- a. The auditor is *independent*.
  - b. The specified users participate in establishing the procedures to be performed and take responsibility for the sufficiency of the procedures for their purposes.
  - c. The basis of accounting of the specified elements, accounts, or items of a financial statement is clearly evident to the specified users and the auditor.
  - d. The procedures to be applied to the specific subject matter are expected to result in findings that are capable of reasonably consistent estimation or measurement.
  - e. 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 auditor's report.
  - f. Use of the report is restricted to the specified users.

### **Agreement on Procedures**

10. To satisfy the requirement that the specified users participate in establishing the procedures to be performed, ordinarily the auditor should meet with the specified users to discuss the procedures. If the auditor is unable to discuss the procedures directly with all of the specified users who will receive the report, the auditor may satisfy the requirement that the specified users take responsibility for the sufficiency of the agreed-upon procedures by applying any one 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 users involved.
- Review relevant contracts with or correspondence from the specified users.
- Distribute a draft of the anticipated report or a copy of an engagement letter to the specified users with a request for their comments.

The auditor should not report on an engagement when specified users do not take responsibility for the sufficiency of the procedures. (See paragraph 40 of this Statement.)

### **Engagement Letters**

11. The auditor 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 other specified users. Matters that might be included in such an engagement letter follow:

See proposed SSAs,  
para. 12,  
the



- Nature of the engagement
- Identification of specified users (see paragraph 40 of this Statement)
- Specified users' acknowledgement of their responsibility for the sufficiency of the procedures
- 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 auditor's report
- Use restrictions
- Assistance to be provided to the auditor (see paragraph 21 of this Statement)
- Involvement of a specialist (see paragraphs 23 through 25 of this Statement)
- Agreed-upon materiality limits (see paragraph 29 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 auditor.

### ***Auditor's Responsibility***

13. The responsibility of the auditor 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 auditor assumes the risk that misapplication of the procedures may result in inappropriate findings being reported. Furthermore, the auditor assumes the risk that appropriate findings may not be reported or may be reported inaccurately. The auditor'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 auditor has no responsibility to determine the differences between the agreed-upon procedures to be performed and the procedures that the auditor would have determined to be necessary had he or she been engaged to perform another form of engagement. The procedures that the auditor agrees to perform pursuant to an engagement to apply agreed-upon procedures may be more or less extensive than the procedures that the auditor would determine to be necessary had he or she been engaged to perform another form of engagement.

15. The auditor should have adequate knowledge in the 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.

### **Procedures to Be Performed**

Delete apostrophe --  
not possessive.

X 16. The procedures that the auditor and specified users agree upon may be as limited<sup>8</sup> or as extensive as the specified users desire. In some circumstances, the procedures agreed upon evolve or are modified over the course of the engagement. In general, there is great flexibility in determining the procedures as long as the specified users acknowledge responsibility for the sufficiency of such procedures for their purposes. (See paragraph 40 of this Statement.) Matters that would be agreed upon include the nature, timing, and extent of the procedures.

17. The auditor 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 work unless the procedures comprehended by these terms are described in the auditor's report. (See paragraph 39 regarding restrictions on the performance of agreed-upon procedures.) The auditor needs only to obtain evidence related to the procedures agreed upon.

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 against certain specified attributes.
- Performance of specific procedures on work performed by others (including the work of internal auditors — see paragraph 22 of this Statement).
- Performance of mathematical computations.

19. Examples of inappropriate procedures include —

- Mere reading of specified information.
- Mere reading of the work performed by others solely to describe their findings.
- Obtaining an understanding about a particular subject.
- Interpreting documents outside the scope of the auditor'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 auditor also may perform agreed-upon procedures on part of an entity's internal control structure over financial reporting. The auditor's report should follow the reporting guidance in paragraph 35 of this Statement. As noted in paragraph 26, the auditor should not provide negative assurance about the effectiveness of the internal control structure over financial reporting or any part thereof.

---

<sup>8</sup> However, mere reading of specified information does not constitute a procedure sufficient to permit an auditor to report on the results of applying agreed-upon procedures to one or more specified elements, accounts, or items of a financial statement.

## Internal Auditors and Other Personnel

21. The agreed-upon procedures to be enumerated or referred to in the auditor's report are to be performed entirely by the auditor. However, internal auditors or other personnel may prepare schedules and accumulate data or provide other information for the auditor'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 auditor may perform under this Statement.

22. An auditor may agree to perform procedures on the work of internal auditors or their report. For example, the auditor may agree to—

- Repeat all or some of the procedures.
- Determine whether the internal auditors' <sup>working papers</sup> ~~workpapers~~ contain documentation of procedures performed and whether the findings documented in the ~~workpapers~~ <sup>working papers</sup> are presented in a report by the internal auditors.

Shown as two words in paras. 21-24.

However, it is inappropriate for the auditor 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 auditor's own.
- Report in any manner that implies shared responsibility for the procedures with the internal auditors.

See proposed SSAE, para. 23.

## Involvement of a Specialist

23. The auditor's education and experience enable him or her to be knowledgeable about business matters in general, but he or she is not <sup>one or more</sup> expected to have the expertise of a person trained for or qualified to engage in the practice of another profession or occupation. The auditor may agree to be assisted by a specialist in the performance of ~~the~~ 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.

24. The specified users should explicitly agree to the involvement of the specialist in assisting an auditor in the performance of an engagement to apply agreed-upon procedures. This agreement may be reached when obtaining agreement on the procedures to be performed, as discussed in paragraph 10 of this Statement.

Wordy phrases - could be shortened.

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

## FINDINGS

26. An auditor states his or her conclusions on the results of applying agreed-upon procedures to specific subject matter in the form of findings. However, the auditor should not provide negative assurance about whether the specified elements, accounts, or items of a financial statement are fairly stated in relation to established or stated criteria such as generally accepted accounting principles. For example, the auditor 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 absence of an exception as a result of applying procedures to the specific subject matter should not be expressed in the form of negative assurance. For example, the auditor should not state in his or her report that "nothing came to my attention as a result of applying the procedure." Rather, findings should be expressed in a positive manner. For example, it would be appropriate for the auditor to state that "no exceptions were found as a result of applying the procedure."

28. The auditor should avoid vague or ambiguous language in reporting findings. For example, expressing a finding about the result of a mathematical computation as "approximating a predetermined amount" would be inappropriate.

29. The auditor 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 materiality is defined by the specified users when agreeing to the procedures to be performed. Any agreed-upon materiality limits should be described in the auditor's report.

30. Examples of appropriate descriptions of findings resulting from the application of certain agreed-upon procedures follow:

### Procedures Agreed Upon

- 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.
- 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.

### Example Findings

- All outstanding checks appearing on the bank reconciliation were cleared in the subsequent month's bank statement except for the following:

*[List all exceptions]*

- All outstanding invoice amounts agreed with the amounts shown on the schedule in the "over ninety days" column, and the dates shown on such invoices preceded the date indicated on the schedule by more than ninety days.

## WORKING PAPERS

31. The auditor 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 auditor's needs on the engagement to which they apply.<sup>9</sup> 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 auditor's report.

32. Working papers are the property of the auditor, and some states have statutes or regulations that designate the auditor as the owner of the working papers. The auditor's rights of ownership, however, are subject to ethical limitations relating to confidentiality.<sup>10</sup>

33. Certain of the auditor'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.

34. The auditor 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*

35. The auditor's report on applying agreed-upon procedures to specified elements, accounts, or items of a financial statement should be in the form of procedures and findings. The auditor's report should contain the following elements:

- a. A title that includes the word *independent*
- b. Identification of specified users (see paragraph 40 of this Statement)
- c. Reference to the specified elements, accounts, or items of a financial statement of an identified entity and the character of the engagement
- 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

*Wordy - could be shortened*

<sup>9</sup> *not* There is no intention to imply that the auditor would be precluded from supporting his or her report by other means in addition to working papers.

<sup>10</sup> For guidance on requests from regulators for access to workpapers, see the Interpretation "Providing Access to or Photocopies of Working Papers to a Regulator" (AICPA, *Professional Standards*, vol. 1, AU sec. 9339).

- 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 auditor should not provide negative assurance — see paragraphs 26, 27, and 30 of this Statement)
- i. Where applicable, a description of any agreed-upon materiality limits (see paragraph 29 of this Statement)
- j. A statement that the work performed does not constitute an audit<sup>11</sup> of financial statements or of specified elements, accounts, or items thereof; a disclaimer of opinion on the financial statements and specified elements, accounts, or items thereof; and a statement that if additional procedures had been performed, other matters might have come to the auditor's attention that would have been reported<sup>12</sup>
- k. Where applicable, a disclaimer of opinion on the effectiveness of the internal control structure over financial reporting or any part thereof (see 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<sup>13</sup> (However, if the report is a matter of public record, the auditor 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 37, 39, 42, and 43 of this Statement

A word seems to be missing.  
an

<sup>11</sup> The auditor may consider adding language regarding the performance of a review. For example, 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."

<sup>12</sup> When the auditor 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) No. 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 auditor should follow (a) paragraph 4 of SAS No. 26 when the financial statements of a public or a nonpublic entity are audited (or reviewed in accordance with SAS No. 71, *Interim Financial Information*) or (b) paragraph 5 of SAS No. 26 when the financial statements of a public entity are unaudited. The auditor should follow paragraph 6 of SSARS No. 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 No. 1).

<sup>13</sup> The purpose of the restriction on use of an auditor's report on applying agreed-upon procedures is to limit its use to only those parties that take responsibility for the sufficiency of the procedures. Paragraph 40 of this Statement describes the process for adding parties who were not originally contemplated in the agreed-upon procedures engagement.

## **Illustrative Report**

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

### **Independent Auditor's Report on Applying Agreed-Upon Procedures**

X 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 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.]*

These agreed-upon procedures do not constitute an audit, the objective of which is the expression of an opinion on *[name of entity]*'s financial statements or specified elements, accounts, or items thereof. 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 did not agree to the procedures.

## **Explanatory Language**

37. The auditor also may include explanatory language about matters such as the following:

- Explanations of sampling risk
- Disclosure of stipulated facts, assumptions, or interpretations (including the source thereof) used in the application of agreed-upon procedures
- Descriptions of the condition of records, controls, or data to which the procedures were applied

## **Dating of Report**

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

## **Restrictions on the Performance of Procedures**

39. When circumstances impose restrictions on the performance of the agreed-upon procedures, the auditor 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 them), the auditor should describe any restrictions on the performance of procedures in his or her report or withdraw from the engagement.

This word is used in the first paragraph of the report examples in the Appendix.

## Nonparticipant Parties

40. The auditor may be requested to add parties who were not originally contemplated in the engagement as specified users. If the addition of new parties is requested after the date of completion of the agreed-upon procedures, but before or after the report is issued, and those parties did not participate in determining or agreeing on the procedures, the auditor may add those parties as specified users provided that such parties acknowledge responsibility for the sufficiency of the procedures. The auditor normally should obtain written acknowledgement from such added specified users concerning their responsibilities and other pertinent matters relating to the engagement, such as the fact that the auditor has performed no additional procedures since the date of his or her report. The auditor may acknowledge that a party has been added as a specified user or may reissue his or her report. Upon reissuance, the auditor should date his or her report in accordance with paragraph 38 of this Statement.

## REPRESENTATION LETTER

41. An auditor 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 auditor —

- All known matters concerning 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.

42. The responsible party's refusal to furnish written representations determined by the auditor to be appropriate for the engagement constitutes a limitation on the performance of the engagement. In such circumstances, the auditor should do one of the following:

- a. Disclose in his or her report the inability to obtain representations from the responsible party.
- b. Change the nature of the engagement.
- c. Withdraw from the engagement.

## KNOWLEDGE OF MATTERS OUTSIDE AGREED-UPON PROCEDURES

43. The auditor has no obligation to perform procedures beyond the agreed-upon procedures. However, if matters come to the auditor's attention by other means that contradict the basis of accounting for the specified elements, accounts, or items of a financial statement being reported on, such information ordinarily should be included in his or her report.<sup>14</sup> For example, during the course of applying agreed-upon procedures to a certain account, the auditor discovers a potentially material adjustment to that account.

*may Perhaps a more appropriate word for an example*

<sup>14</sup> If the auditor 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, *Reports on Audited Financial Statements* [AICPA, *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.



## CHANGE TO AN ENGAGEMENT TO APPLY AGREED-UPON PROCEDURES FROM ANOTHER FORM OF ENGAGEMENT

44. An auditor 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.

45. Before an auditor 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

46. A change in circumstances that affects the requirement for another form of engagement, or a misunderstanding concerning the nature of the original engagement, for the alternative agreed-upon procedures services originally available, would ordinarily be considered a reasonable basis for requesting a change in the engagement, as long as the specified users agree to assume responsibility for the sufficiency of the procedures to be included in the engagement to apply agreed-upon procedures.

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

48. If the auditor 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 auditor 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 43 of this Statement.)

## COMBINED OR INCLUDED REPORTS

49. When an auditor 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 auditor'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.

*(See proposed SSAE para. 47.)*

*Not necessary to capitalize if used in a general sense.*

*SSAEs  
Use abbreviation introduced on page 9.*

**EFFECTIVE DATE**

50. The effective date for this Statement is for reports on engagements to apply agreed-upon procedures dated on or after June 30, 1995. Earlier application is encouraged.

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**

*See illustrative report in para. 36 of this document, the report below differs in some respects.*

**Independent Auditor'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.

*respect to*

The procedures and the associated findings are as follows:

*specified users of the report*

Cash

*not used in same para. of Appendix's second example.*

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 reconciliation and compared the resultant cash balances per book to the respective general ledger account balances.

*wordy - shorten*

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

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.

- 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.

- 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 customer account balances. The sample size traced was 9.8 percent of the aggregate amount of the customer account balances.

- 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:

<u>Accounts Receivable</u> <u>December 31, 19XX</u>			
<u>Aging Categories</u>	<u>Customer Account Balances</u>	<u>Confirmations Requested</u>	<u>Confirmation Replies Received</u>
Current	\$156,000	\$ 76,000	\$ 65,000
Past due:			
Less than one month	60,000	30,000	19,000
One to three months	36,000	18,000	10,000
Over three months	<u>48,000</u>	<u>48,000</u>	<u>8,000</u>
	<u>\$300,000</u>	<u>\$172,000</u>	<u>\$102,000</u>

*possessive not needed*

X These agreed-upon procedures do not constitute an audit, the objective of which is the expression of an opinion on the financial statements of Y Company or specified elements, accounts, or items thereof. 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.

X 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 did not agree to the procedures.

*specified users listed above*

*See comment at top of preceding page.*

**Report in Connection With Claims of Creditors**

*solely to assist you*

**Independent Auditor's Report on Applying Agreed-Upon Procedures**

*See illustrative report in para. 36 of this document the report below differs in some respects.*

To the Trustee of XYZ Company:

*enumerated*

X We have performed the procedures described below, which were agreed to by the Trustee of XYZ Company, with respect to the claims of creditors 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.

*specified users of the report*

The procedures and associated findings are as follows:

- a. 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.

- b. 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.

- c. 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.

These agreed-upon procedures do not constitute an audit, the objective of which is the expression of an opinion on the financial statements of XYZ Company or specified elements, accounts, or items thereof. 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.

X This report is intended solely for the use of the Trustee of XYZ Company and should not be used by those who did not agree to the procedures.

*specified users listed above*



January 9, 1995

**Certified Public  
Accountants**

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Harley W. Pottroff, CPA  
Russell L. Reinert, CPA  
Michael V. Rogers, CPA  
T. William Varney, CPA  
Gregg R. Masterson, CPA  
Susan M. Spain, CPA  
Bruce T. Wilson, CPA  
Wanda Vore Wood, CPA

A. Louise Williamson, Technical Manager  
Auditing Standards Division  
AICPA -- File 3615  
1211 Avenue of the Americas  
New York, NY 10036-8775

RE: SAS Exposure Draft - Engagement to Apply Agreed Upon Procedures to Specified  
Elements, Accounts or Items of a Financial Statement

Dear Ms. Williamson:

We support the elimination of negative assurances from reports in order to avoid the impression that our procedures constituted an "audit" with the necessary level of responsibility.

We do *not* support the CPA needing to be independent for the following reasons:

- While serving on boards (whether not-for-profit, community or for-profit) we are often asked to do special procedures for the purpose of giving "comfort" or to satisfy regulatory concerns. We believe that as long as the report specifically states that we are not independent, the risk of over-reliance on our procedures can actually be less. Less because of the limited distribution we have, because of our opportunity to better explain and control the distributions, and because of our ability to keep undue reliance from occurring based upon our procedures.

The CPA should, of course, use his or her best judgment as to which areas a misconception on independence could occur and should avoid those areas. However, because of the limited stated distribution, the normal objection to public appearance is a contradiction and should not be automatically assumed.

- Additionally, many regulators such as the bank regulators specifically require the board to perform special procedures that are often assigned to the "financial" member of the board. The CPA would be shirking their responsibilities in such cases if they did not participate.

In short, we believe the proposed pronouncement goes too far.

Sincerely,

Varney, Mills, Rogers, Burnett & Associates  
Certified Public Accountants



**Members**

American Institute of  
Certified Public  
Accountants

Kansas Society of  
Certified Public  
Accountants

(8)

CLARK & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

RICHARD D. CLARK  
BARBARA J. CLARK

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Oakton, Virginia 22124  
(202) 429-9623  
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Fax - (703) 281-1228

January 11, 1995

A. Louise Williamson  
Technical Manager  
Auditing Standards Division, File 3615  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Williamson:

I have reviewed the exposure draft for a proposed statement on auditing standards, Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement. I have one comment regarding this draft.

Paragraph 14 states that "The auditor has no responsibility to determine the difference between the agreed-upon procedures to be performed and the procedures that the auditor would have determined to be necessary had he or she been engaged to perform another form of engagement. The procedures that the auditor agrees to perform pursuant to an engagement to apply agreed-upon procedures may be more or less extensive than the procedures that the auditor would determine to be necessary had he or she been engaged to perform another form of engagement."

Further, Paragraphs 26 through 30 discuss at length the obligations of the auditors not to "mislead" a user by inference. For example, Paragraph 27 states an auditor should not report that "nothing came to my attention". Paragraph 28 warns to avoid vague and ambiguous language. And, of course, one major change is discussed in Paragraph 26 which forbids negative assurances.

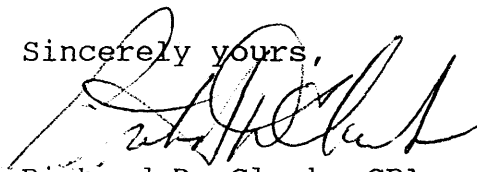
I have no argument with the foregoing requirements which are obviously intended to clarify the work and reporting of the auditor. However, having gone to great lengths to describe agreed-upon procedures as not being an audit, the proposed statement gratuitously adds the very ambiguous and suggestive language warned against throughout. Paragraph 35 clearly requires disclaimer that this was not an audit, fixes responsibility upon the user for parameters, and proscribes negative assurance. However, in an apparent rush to obviate liability with a self-serving statement, the proposed statement at Paragraph 35j requires a statement in the report that "if additional procedures had been

performed, other matters might have come to the auditor's attention that would have been reported."

This not only begs the question (obviously one could as easily say that other matters may not have come to the auditors attention that would not have been reported) but invites the user to believe something must have been missed, even though it may not have, as surely as a negative assurance would invite a user to believe everything is all right when it may not be. Moreover, it is clear the auditor was not engaged to do anything else, as indicated in Paragraph 14.

For these reasons, I believe this requirement should be deleted and the sample auditor's reports should be changed accordingly.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Richard D. Clark".

Richard D. Clark, CPA



**AICPA**

American  
Institute of  
Certified  
Public  
Accountants

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February 1, 1995

File Ref. No. 1120  
3615

To the Auditing Standards Board:

Here are additional comment letters received to date on the proposed Statement on Auditing Standards, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*.

Name/Affiliation

Location

- |  |                   |
|--|-------------------|
| 9. Russell W. Hinton<br>Department of Audits   | Atlanta, GA       |
| 10. Daniel G. Kyle<br>Office of Legislative Auditor  | Baton Rouge, LA   |
| 11. Ian MacKay<br>AICPA  | Washington, DC    |
| 12. Howard Sibelman<br>Nanas, Stern, Biers, Neinstein & Co.  | Beverly Hills, CA |
| 13. Richard J. Costantino<br>Maryland Association of CPAs  | Lutherville, MD   |
| 14. Lucinda V. Upton<br>Governmental Training Solutions  | Georgetown, KY    |
| 15. John J. O'Leary<br>Walter M. Primoff<br>New York State Society of CPAs                           | New York, NY      |
| 16. Arthur A. Hayes, Jr.<br>Association of Government<br>Financial Management Standards<br>Committee | Alexandria, VA    |

Sincerely,

A. Louise Williamson, CPA  
Technical Manager  
Auditing Standards Division

ALW/jw

cc: Agreed-Upon Procedures Task Force



(4)

# DEPARTMENT OF AUDITS

## PROFESSIONAL PRACTICE

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CLAUDE L. VICKERS  
STATE AUDITOR  
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RUSSELL W. HINTON  
DIRECTOR  
(404) 656-2180

January 17, 1995

Ms. A. Louise Williamson  
Technical Manager  
Auditing Standards Division - AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Williamson:

On behalf of the Georgia Department of audits, I hereby submit to you these comments regarding the Proposed Statement on Auditing Standards *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*.

### Engagement Letters

Paragraph 11 of the proposed statement **recommends** the use of an engagement letter to be addressed to the client and in some circumstances the other "specified users". Due to the fact that the users are deemed to be responsible for the sufficiency of procedures and that these procedures should be specifically agreed-upon and the fact that "specified users" need be identified, we believe that the use of an engagement letter should be mandatory. This engagement letter could be the vehicle to document the agreed upon procedures and identify the specified users.

### Involvement of a Specialist

Paragraph 24 states that specified users should explicitly agree to the involvement of a specialist, however the proposed statement does not provide guidance as to how this agreement should be documented.

Ms. A. Louise Williamson  
Page 2  
January 17, 1995

### Nonparticipant Parties

Paragraph 40 of the proposed statement provides for situations in which additional parties can be added to the list of specified users under certain circumstances. There is no guidance, however as to the form and content of this acknowledgement. Additionally, the second last sentence of the same paragraph states that the auditor may acknowledge that a party has been added as a specified user or may reissue his or her report. It is somewhat confusing as to when simple acknowledgement (in whatever form) would be acceptable and when reissuance would be mandated.

### Reporting - Required Elements

Paragraph 35 (d) requires the auditor to report the basis of accounting of the specified elements, accounts, or items of a financial statement unless clearly evident. We believe there is insufficient guidance provided in this proposed statement regarding this requirement and would recommend that the appendix to this statement include an example of this and all the required elements mentioned.

We appreciate the opportunity to provide these comments to you. If you have any questions concerning our comments, please feel free to call at (404) 656-2180.

Respectfully Submitted,



Russell W. Hinton  
Director



OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
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DANIEL G. KYLE, PH.D., CPA, CFE  
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January 11, 1995

Ms. A. Louise Williamson, Technical Manager  
Auditing Standards Division, File 3615  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

Dear Ms. Williamson:

I have reviewed the exposure draft *Proposed Statement on Auditing Standards-- Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*. I provide the following recommendations.

1. Paragraph 31(b). I would add the following requirement to working papers, ". . .reasonable basis for the findings or findings expressed in the auditor's report, to include the nature, extent, and timing of each applied agreed-upon procedure." This added wording clearly requires the auditor to document his tests and the results of those tests.
2. Paragraph 27. The draft provides that stipulated facts, assumptions, or interpretations may be included as explanatory language. These matters are primary to understanding the applied agreed-upon procedures. Therefore, I suggest that these matters be moved to paragraph 35, item (c) as a required part of the auditor's report.
3. Paragraphs 26-30. Generally, agreed-upon procedure reports include far more verbiage that is not based upon boiler-plate language of the standards. This often causes auditors concern. Chapter 7 of *Government Auditing Standards*, as it relates to adequately communicating findings, provides excellent guidance to the auditor. You should consider a footnote reference. Specifically, the standards provide in Section 7.23, "Recommendations are most constructive when they are directed at resolving the cause of identified problems, are action oriented and specific, are addressed to parties that have the authority to act, are feasible, and, to the extent practical, are cost-effective." I suggest similar guidance within paragraphs 26-30.

Ms. A. Louise Williamson  
January 1, 1995  
Page 2

I hope these comments prove beneficial to the board's deliberations.

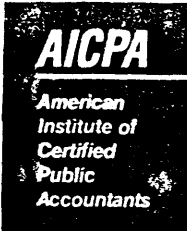
Sincerely,

A handwritten signature in black ink, reading "Daniel G. Kyle". The signature is written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

DGK/GCA/db

FILE3615



# INTERNAL MEMORANDUM

Date: January 18, 1995

Reply:

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To: Louise Williamson

File No. J-1-413

From: Ian MacKay / *IM*

Subject: **Agreed-Upon Procedures EDs**

Below are my comments on the EDs:

1. Reasonable Criteria/Reasonably Consistent Estimation or Measurement - Paragraph 5(c) (third general standard) of the Attestation Standard ED discusses the need for the assertion to be capable of reasonably consistent estimation or measurement using the stated criteria. Because we have seen many examples where federal audit guides use terms like "timely payment", "adequate internal control system", and "reasonable amount," it would be helpful to give some examples of what constitutes "capable of reasonably consistent estimation or measurement" (i.e., paid within 15 business days after receipt, amount did not exceed \$x) and examples of what does not. This comment also applies to the SAS ED.

I really like the examples in paragraphs 19 and 20 of appropriate and inappropriate procedures. I think they provide good guidance for developing procedures.

2. Required Elements of Report - Paragraph 35(e) of the Attestation Standard ED should footnote that other standards (i.e., *Government Auditing Standards*) may also require the practitioner to refer to the other standards in the practitioner's report if the engagement is required to be conducted in accordance with those standards. (See paragraph 2(c) of the ED.) This comment also applies to paragraph 35(f) of the SAS ED.
3. Requirement for a Written Assertion - The last paragraph of the Summary in the Attestation Standard ED states that a significant difference between the proposed Attestation Standard and proposed SAS is that the presence of a written assertion as a condition of engagement under the proposed SAS is not required. It seems to me that the specified elements, accounts, or items of a financial statement to be reported on are, in fact, the written assertion. Is the point here that a separate written assertion is not required to be prepared solely for the purpose of the SAS engagement, but in fact the client must have prepared some report or schedule containing the information to be reported on? It is not clear to me when the auditor would report on an "element, account, or item in a financial statement" that is not reflected or "effectively embodied" in the financial statements or a client-prepared schedule. An example may be helpful.

IAM:mmw

cc: Dan Guy

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**NANAS, STERN, BIERS, NEINSTEIN AND CO.**

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ARNOLD ROSEMAN, CPA (1918-1965)  
JULIUS L. NANAS, CPA (1913-1983)

January 18, 1995

Ms. A. Louise Williamson, Technical Manager  
Auditing Standards Division, File 3615  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Re: Proposed Statement on Auditing Standards -  
Engagements to Apply Agreed-Upon Procedures to  
Specified Elements, Accounts, or Items of a  
Financial Statement

Dear Ms. Williamson:

The "why issued" preamble to the Exposure Draft (ED) explains why certain modifications are proposed to existing practice standards, e.g., to address additional issues the auditor should consider and to eliminate negative assurance, but the ED goes much further.

It appears to me that the intention of the ED is to reduce, if not eliminate entirely, the agreed-upon procedure service to clients by overly regulating the conduct of this type of engagement and the resulting report. This is "fixing something that isn't broken" and therefore unnecessary.

Perhaps the motivation is to impose additional rules and reporting language in an attempt to limit liability? While this may be a laudable goal, I believe it unattainable.

Whether either, both, or neither, of these speculations is on target, the effect of the requirements of the ED is certainly to discourage the performance of this type of engagement.

Paragraphs 17/19

Is the term "reconcile" really "overly subjective"? I don't think so and the examples in paragraph 19 bear no relation to this concept. Paragraph 17 should be eliminated.

Paragraph 35g and the last 2 sentences of the first paragraph of the sample report

The first sentence of the report names the specified users and cites their agreement to the procedures. The sufficiency of the procedures is implicit in the users agreeing to them

In fact, the auditor makes no representations, unless he does. It is not necessary to say in the report that the auditor is making no representations as to the sufficiency of the procedures. The users

provided and agreed to the procedures, the auditor just performed them. The ED seems to be addressing a concern about an **implied** representation. I think this is unnecessary.

I suggest this "requirement" be instead a footnote, or otherwise placed, option to be used in circumstances where the auditor feels such an abundance of caution is needed.

Paragraph 35j, after the semi-colon

The phrase "if additional procedures had been performed, other matters might have come to the auditor's attention that would have been reported" is a truism applicable to every engagement an auditor performs, not required in any other auditor's report, self-serving and unnecessary.

The report details what was done and the findings. It is both obvious and implicit that if more had been done, other matters might have been reported, **but** the specified users dealt with this in agreeing to the procedures.

I suggest this "requirement" be instead a footnote, or otherwise placed, option to be used in circumstances where the auditor feels such an abundance of caution is needed.

Paragraph 35k

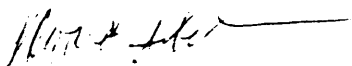
I think this needs clarification. What does "where applicable" mean?

Is the ED requiring that if **any** of the agreed-upon procedures are on part of an entity's internal control structure over financial reporting (paragraph 20), then the report should contain a disclaimer of opinion on the effectiveness of the internal control structure over financial reporting or any part thereof?

If, as an example, an auditor, as an agreed-upon procedure, reports that in a sample of 50 checks, all bore the required two signatures, is it really necessary to go on to add the disclaimer noted above?

In summary, I recognize and respect the Auditing Standards Board's difficult position in balancing the public interest with the auditor's professionalism. However, it seems to me that the tilt should be toward protecting the public from poor practice. This ED serves to protect the auditor at the expense of the public (in the form of specified users who have agreed what is to be done). The users who want this service **agree up-front** as to what they'll get. Let's not make it impossible to deliver the service.

Sincerely,



Howard Sfbelman, Partner





Maryland Association of  
Certified Public Accountants

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Lutherville, Maryland 21094-4417

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January 23, 1995

A. Louise Williamson, Technical Manager  
Auditing Standards Division, File 3615  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Williamson:

The following are the comments of the Auditing Standards Committee of the Maryland Association of CPA's (Committee) on the exposure draft "Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, on Items of a Financial Statement".

Paragraph 10 indicates to satisfy the requirement that the specified users participate in establishing the procedures to be performed, ordinarily the auditor should meet with the specified users to discuss the procedures. The Committee believes that this sentence should be expanded to include meeting and discussing the procedures with specified user or "authorized representative of the user", such as is the case of a bankruptcy where the auditor meets and discusses the procedures with the bankruptcy trustee rather than the creditors who are also the specified users of the report.

Paragraph 10 continues by stating, if the auditor is unable to discuss the procedures directly with all of the specified users who receive the report, the auditor may satisfy the requirement that the specified users take responsibility for the sufficiency of the agreed upon procedures by applying any one 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 users involved.
- Review relevant contracts with or correspondence from the specified users.
- Distribute a draft of the anticipated report or a copy of an engagement letter to the specified users with a request for their comments.

A. Louise Williamson - Page 2 - January 23, 1995

In this case, the Committee believes the CPA would be taking responsibility for interpreting the application of the written requirements or relevant contracts. This would seem to contradict the requirement that the sufficiency of these procedures is solely the responsibility of specified users.

Paragraph 24 indicates the specified user should explicitly agree to the involvement of the specialist in assisting the auditor in the performance of an engagement to apply agreed-upon procedures. The Committee believes that the requirement to "explicitly agree" is at a higher level of agreement than is necessary. Furthermore, this requirement appears more stringent and contradictory to paragraph 10 where if the auditor is unable to discuss directly with all of the specified users who will receive the report the auditor may satisfy the requirement that the specified users take responsibility for the sufficiency of the agreed-upon procedures by performing the procedures previously discussed.

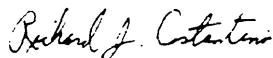
With respect to the Illustrative Report in the Appendix on page 23 "Report in Connection With a Proposed Acquisition", the Committee believes that the introductory paragraph to this report should reference to the specified elements, accounts, or items, consistent with paragraph 35c of the exposure draft. We recommend that the introductory sentence read as, "We have performed the procedures enumerated below **with respect to cash and accounts receivable**, which are 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".

The above comments are also applicable to the related sections of the exposure draft "Proposed Statement on Standards for Attestation Engagements - Agreed-Upon Procedures Engagements". Additionally, with respect to this exposure draft, the Committee noted that the last paragraph of the example in paragraph 26 on page 34 appears to be omitted. This omitted paragraph is a required element under paragraph 35, on page 20 of the exposure draft. The omitted paragraph should read as follows:

"This report is intended solely for the use of the audit committee, management, and the parties listed in the first paragraph, and should not be used by those who did not agree to the procedures."

Thank you for the opportunity to respond and for your consideration of these comments.

Sincerely,



Richard J. Costantino, Member  
Auditing Standards Committee

January 25, 1995

Lucinda V. Upton, CPA  
Governmental Training Solutions, Inc.  
119 Nancy Lane  
Georgetown, Kentucky 40324-9310

A. Louise Williamson, Technical Manager  
Auditing Standards Division  
File 3615  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

Dear Ms. Williamson:

Thank you for giving us an opportunity to respond to the Auditing Standards Board's exposure draft entitled *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*. On the whole, we find the draft to be a significant improvement over previous guidance, and we commend the AICPA for clarifying the requirements. However, we want to offer the following comments in an attempt to further clarify the standards.

¶ 2.c. We believe this guidance is self-contradictory. An auditor/accountant can perform a financial-related audit in the form of an agreed-upon procedures engagement and report in accordance with *Government Auditing Standards*. In fact, the 1994 revision of the Yellow Book specifically refers to engagements performed under SAS 35 in its section on financial-related audits. This guidance should be clarified to specify that this statement should not be followed in a financial statement audit conducted under *Government Auditing Standards* but that it may be followed in financial-related audits.

In addition, it is difficult for us to determine the appropriateness of footnote 2 without knowing the outcome of the proposal to supersede SAS 68. We caution the Auditing Standards Board to consider the effect of the revised *Government Auditing Standards* on all of these proposals. In addition, we believe these proposals will have a significant impact in the government environment because of an increase in the amount of agreed-upon procedures work that is occurring now and that is expected to continue into the future.


¶ 8 We believe the usefulness of these examples would be enhanced with the addition of specific examples that are relevant to the government environment.

¶ 30 We believe the usefulness of these examples would be enhanced with the addition of guidance on procedures and findings that are relevant to the government environment.

APPENDIX We believe the usefulness of this guidance would be enhanced with the addition of an illustrative report for a government.

Let us emphasize again that we find the proposals more useful than existing guidance, and we commend the AICPA for providing this guidance in a timely manner. If you have questions about our response, please call me at 606-226-9682.

Sincerely,



Lucinda V. Upton  
Vice President  
Governmental Training Solutions, Inc.

copy: Betty P. King, CPA  
President  
Governmental Training Solutions, Inc.

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LAURENCE KEISER, CPA	TREASURER
ROBERT L. GRAY, CPA	EXECUTIVE DIRECTOR



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January 26, 1995

Ms. A. Louise Williamson, Technical Manager  
Auditing Standards Division  
AICPA, File 3615  
1211 Avenue of the Americas  
New York, NY 10036-8775

Re: Proposed Statement on Auditing Standards Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement

Dear Ms. Williamson:

We are enclosing the comments of the New York State Society of Certified Public Accountants in response to the above proposed statement. These comments were prepared by the Society's Auditing Standards and Procedures Committee.

If you have any questions regarding the comments, please call us and we will arrange for someone from the committee to contact you.

Thank you for your consideration.

Very truly yours,

John J. O'Leary, CPA  
Chairman, Auditing Standards  
and Procedures Committee

Walter M. Primoff, CPA  
Director, Professional Programs

cc: Accounting & Auditing Committee Chairmen

**OFFICERS**

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FRANCIS T. NUSSPICKEL, CPA	VICE PRESIDENT
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JOSEPH L. CHARLES, CPA	SECRETARY
LAURENCE KEISER, CPA	TREASURER
ROBERT L. GRAY, CPA	EXECUTIVE DIRECTOR



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**COMMENTS**

**OF**

**Auditing Standards and Procedures Committee of the New York State Society of Certified Public Accountants**

**ON**

**Proposed Statement on Auditing Standards Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement**

**General Comments**

The Committee notes that the "Why issued" paragraph in the summary includes the statement that the ASB concluded that negative assurance should be eliminated from reports on engagements covered by the statement without any reasons for that conclusion.

Negative assurance reports will still be issued with respect to review engagements, comfort letters, and certain compliance reports under GAGAS. The definition of negative assurance is currently in a footnote in SAS 72. We believe a self standing paragraph in the reporting standards section should be put in place to explain the continuing use and relevance of this concept.

We note the use of terms such as "check", "reconciled", (unexplained) in the illustrative reports notwithstanding the cautionary language in paragraph 17.

The following are some more specific suggestions concerning our committee's review of the exposure draft of the above document.

**Specific Suggestions (referred by paragraph number)**

- 9 and 11 Under conditions for engagement performance, the exposure draft indicates that the specified users should participate in establishing the procedures to be performed and take responsibility for the sufficiency of the procedures for their purposes. Paragraph 11 goes on to say that engagement letters should be addressed to the client, and in some circumstances, also to other specified users.

This letter statement seems to imply that it is not necessary to send engagement letters to other specified users where the auditor feels an engagement letter is not necessary in establishing a clear understanding regarding the terms of the engagement.

**nysscpa**

We feel that since the specified users are taking so much responsibility for the sufficiency of the procedures, the statement should emphasize that it is preferable that engagement letters be also addressed to other specified users.

- 32 to 34 We feel these paragraphs should be deleted since they deal primarily with the ownership and custody over "working papers" a topic not germane to the subject at hand and more appropriately addressed elsewhere.

- 39 This paragraph indicates that when modification of the agreed-upon procedures cannot be obtained when restrictions are imposed on the performance of the agreed-upon procedures, the auditor should describe any restrictions on the performance of procedures in his or her report or withdraw from the engagement. We feel that some examples of situations falling under these two categories as well as reporting language would greatly enhance the readers understanding of the subject matter.

- 41 This paragraph which deals with representation letters indicates that an auditor may find a representation letters 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. We feel this paragraph should be expanded to recommend that, in those situations where the auditor was unable to sufficiently document the understanding among the users in regard to the agreed-upon procedures, a representation letter be obtained from the applicable parties.

- Our comments would also apply to analogous paragraphs in the companion document the ASB will be issuing.

# ASSOCIATION of GOVERNMENT ACCOUNTANTS

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January 27, 1995

Ms. A. Louise Williamson, Technical Manager  
Auditing Standards Division—File 3615  
American Institute of Certified Public Accountants (AICPA)  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Williamson:

On behalf of the Financial Management Standards Committee, we appreciate the opportunity to comment on the *Proposed Statement on Auditing Standards (SAS)—Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement* exposure draft. We have reviewed the exposure draft and submit the following comments for consideration by the Auditing Standards Board (Board).

## **Applicability of Generally Accepted Auditing Standards**

The second sentence of paragraph 5 states, "The auditor 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." For consistency with the format of the first sentence of paragraph 5, we suggest that the second sentence be revised to read, "The auditor also should follow the interpretative guidance relating to the application of the third standard of fieldwork (sufficient competent evidential matter) and follow the reporting standards as addressed in this Statement."

## **Conditions for Engagement Performance**

Paragraph 9f states, "The auditor may perform an engagement under this Statement provided that use of the report is restricted to the specified users." Reports prepared by many government auditors are considered to be public documents in accordance with freedom of information



January 27, 1995

statutes and other rules or regulations. Therefore, to ensure that all government auditors may perform agreed-upon procedures engagements in accordance with this final Statement, we strongly recommend that paragraph 9f be revised to read, "The auditor may perform an engagement under this Statement provided that use of the report is restricted to the specified users, unless otherwise provided for by government statute, rule, or regulation." Other references to the restricted use of the auditor's report, such as in paragraph 4, may require similar revision.

### **Agreement on Procedures**

The second sentence of paragraph 10, which introduces four separate procedures, states, "The auditor may satisfy the requirement that the specified users take responsibility for the sufficiency of the agreed-upon procedures by applying any one of the following or similar procedures." After reviewing this paragraph, we believe that the auditor could typically apply more than one of the procedures. For example, the auditor might discuss the procedures to be applied with representatives of the users involved and also distribute a draft of the anticipated report to the users with a request for their comments. Therefore, we suggest that the second sentence of paragraph 10 be revised to read, "The auditor may satisfy the requirement that the specified users take responsibility for the sufficiency of the agreed-upon procedures by applying any one or more of the following or similar procedures."

### **Engagement Letters**

The first two sentences of paragraph 11 state, "The auditor 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 other specified users." However, the proposed statement does not provide guidance for those circumstances in which the auditor should also address the engagement letter to other specified users. We suggest that paragraph 11 be expanded to provide guidance (including examples) on specific circumstances which would warrant including other specified users in the address of the engagement letter.

### **Auditor's Responsibility**

Paragraphs 13-15 address the auditor's responsibility in an agreed-upon procedures engagement. Paragraphs 13 and 15 relate to the auditor's responsibility in accordance with applicable general, fieldwork, and reporting standards. Paragraph 14 relates to the differences in responsibility between an agreed-upon procedures engagement and other forms of engagements. To improve the readability and consistency of the final statement, we suggest that paragraphs 14 and 15 be reversed so that the narrative in paragraph 15 will immediately follow the narrative in paragraph 13.

### **Procedures to Be Performed**

Paragraph 19 states, "Examples of inappropriate procedures include . . . mere reading of specified information." On the same page, footnote 8 (referenced in paragraph 16) states, "However, mere

reading of specified information does not constitute a procedure sufficient to permit an auditor to report on the results of applying agreed-upon procedures to one or more specified elements, accounts, or items of a financial statement." We believe that the information in footnote 8 clearly repeats the guidance in paragraph 19. Therefore, to avoid confusing the auditor, we suggest that footnote 8 be deleted in the final statement. If the Board believes that footnote 8 provides a more detailed explanation, we suggest that the narrative in footnote 8 be included in paragraph 19.

### **Internal Auditors and Other Personnel**

Paragraphs 21 and 22 illustrate the potential involvement of internal auditors in the engagement. The last two sentences of paragraph 21 state, "Also, internal auditors may perform and report separately on procedures that they have carried out. Such procedures may be similar to those that an auditor may perform under this Statement." Professional standards for internal auditors are promulgated by the Institute of Internal Auditors (IIA); therefore, this information is irrelevant to the guidance in this proposed Statement. Because internal auditing standards should never be confused with the AICPA professional standards, and because of professional courtesy to the IIA and its members, we suggest that the last two sentences in paragraph 21 be deleted in the final Statement. As an alternative, these two sentences could be replaced by one sentence referring to the IIA, such as, "In accordance with the Institute of Internal Auditors' professional standards, internal auditors may perform and report separately on procedures they have carried out."

### **Findings**

Paragraph 29 states, "The auditor 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 materiality is defined by the specified users when agreeing to the procedures to be performed. Any agreed-upon materiality limits should be described in the auditor's report." As currently written, paragraph 29 does not properly emphasize the importance of defining appropriate materiality limits when the specified users are agreeing to the procedures to be performed. Without defining appropriate materiality limits, the auditor could be required to report insignificant findings of less than one dollar. To alert the auditor to the importance of defining materiality, we strongly suggest that the Board revise the second and third sentences of paragraph 29 to read, "Because the concept of materiality does not apply to findings reported in an engagement applying agreed-upon procedures unless materiality is defined by the specified users when agreeing to the procedures to be performed, it is very important that those users define appropriate materiality limits. The agreed-upon materiality limits should be described in the auditor's report."

### **Illustrative Report—Independent Auditor's Report on Applying Agreed-Upon Procedures**

The last sentence of the illustrative report in paragraph 36 states, "This report is intended solely for the use of the specified users listed above and should not be used by those who did not agree to the procedures." Based on the insistence throughout the proposed Statement (e.g., paragraphs 10 and 11) that the specified users must take responsibility for the sufficiency of the procedures,

January 27, 1995

we believe that the statement excluding users "who did not agree to the procedures" is inappropriate and inconsistent. Therefore, we strongly suggest that the Board revise the last sentence of the illustrative report in paragraph 36 (and in the other examples throughout the final Statement) to read, "This report is intended solely for the use of the specified users listed above and should not be used by those who did not take responsibility for the sufficiency of the procedures."

#### **Date of Report**

Paragraph 38 states, "The date of completion of the agreed-upon procedures should be used as the date of the auditor's report." However, the proposed Statement does not address the auditor's responsibility for subsequent events (such as a potentially material adjustment to an account) which might occur between the completion of the agreed-upon procedures and the issuance of the auditor's report. We strongly suggest that the Board expand the guidance in the final Statement to specifically address the auditor's responsibility for subsequent events in an agreed-upon procedures engagement.

#### **Nonparticipant Parties**

We have three specific concerns about paragraph 40, which states:

The auditor may be requested to add parties who were not originally contemplated in the engagement as specified users. If the addition of new parties is requested after the date of completion of the agreed-upon procedures, but before or after the report is issued, and those parties did not participate in determining or agreeing on the procedures, the auditor may add those parties as specified users provided that such parties acknowledge responsibility for the sufficiency of the procedures. The auditor normally should obtain written acknowledgment from such added specified users concerning their responsibilities and other pertinent matters relating to the engagement, such as the fact that the auditor has performed no additional procedures since the date of his or her report. The auditor may acknowledge that a party has been added as a specified user or may reissue his or her report. Upon reissuance, the auditor should date his or her report in accordance with paragraph 38 of this Statement.

First, we are confused about the time frame in the first portion of the second sentence, which states, "If the addition of new parties is requested after the date of completion of the agreed-upon procedures, but before or after the report is issued, . . ." We believe that the date the auditor completes the procedures is irrelevant. The more important date, in terms of adding new parties to the engagement, is the date that the other specified users took responsibility for the sufficiency of the procedures in the engagement. Therefore, we suggest that the first portion of the second

sentence of paragraph 40 be revised to read, "If the addition of new parties is requested after the date the other users took responsibility for the sufficiency of the procedures, but before or after the report is issued, . . ."

Second, the third sentence of paragraph 40 states, "The auditor normally should obtain written acknowledgment from such added specified users . . ." Although we agree that written documentation in the auditing profession is always advantageous, we are concerned that the "written acknowledgment" in the third sentence sets a higher requirement for added users than for specified users elsewhere in the proposed Statement (e.g., paragraph 10). For consistency, we suggest that the third sentence of paragraph 40 be revised to read, "The auditor normally should obtain acknowledgment from such added specified users . . ." As an alternative, the Board could require, throughout the document, written acknowledgment from all specified users.

Third, the fourth and fifth sentences of paragraph 40 state, "The auditor may acknowledge that a party has been added as a specified user or may reissue his or her report. Upon reissuance, the auditor should date his or her report in accordance with paragraph 38 of this statement." Because paragraph 38 merely states, "The date of completion of the agreed-upon procedures should be used as the date of the auditor's report," the guidance in paragraph 40 appears to be incomplete and may confuse the auditor. For example, in what manner would the auditor acknowledge that a party had been added as a specified user? Also, how would the auditor distinguish the reissued report from the original report without guidance in the proposed statement for subsequent or dual dating of the report? We strongly suggest that the Board expand the narrative in paragraph 40 to provide more comprehensive guidance for the auditor (1) in acknowledging that a party has been added as a specified user and (2) in reissuing a report. Perhaps the fifth sentence should not only refer to paragraph 38 of the proposed statement but also to Codification Sections AU 530.01-530.08, which specifically address reissuing and dating the auditor's report.

### **Representation Letter**

Paragraph 42 states, "The responsible party's refusal to furnish written representations determined by the auditor to be appropriate for the engagement constitutes a limitation on the performance of the engagement. In such circumstances, the auditor should do one of the following: (a) Disclose in his or her report the inability to obtain representations from the responsible party. (b) Change the nature of the engagement. (c) Withdraw from the engagement." We believe that refusal to furnish written representations is so significant to the engagement that option (b), merely changing the nature of the engagement, is not an appropriate remedy for the auditor to consider. Therefore, we suggest that the second sentence of paragraph 42 be revised and shortened to read, "In such circumstances, the auditor should do either of the following: (a) Disclose in his or her report the inability to adequately apply procedures or (b) withdraw from the engagement."

### **Combined or Included Reports**

Paragraph 49, sentence 3, states, "Reports on applying agreed-upon procedures to specified elements, accounts, or items of a financial statement may be included or combined with reports on

Ms. A. Louise Williamson

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January 27, 1995

such other services, provided the types of services can be clearly distinguished and the applicable standards for each service are followed." Because including or combining a report on applying agreed-upon procedures with a report on an audit, review, or compilation can be extremely complex, we strongly suggest that the Board include one or more illustrations of a combined report in the appendix of the final Statement.

#### **Effective Date**

Paragraph 50 states, "The effective date for this Statement is for reports on engagements to apply agreed-upon procedures dated on or after June 30, 1995. Earlier application is encouraged." The time required to complete these types of engagements can vary greatly depending on individual circumstances. Therefore, from a practical perspective, we believe the effective date of the final Statement should be tied to the starting date of the engagement, rather than to the date of the auditor's report. We strongly suggest that paragraph 50 be revised to read, "The effective date for this Statement is for engagements to apply agreed-upon procedures started on or after June 30, 1995. Earlier application is encouraged."

#### **Additional Illustrative Reports—Report in Connection With a Proposed Acquisition—Independent Auditor's Report on Applying Agreed-Up On Procedures**

The second paragraph of procedure two (Accounts Receivable) in the illustrative report on page 23 of the appendix merely states, "We found no difference." For consistency with the other illustrative reports in the appendix, we suggest that this paragraph be expanded to read, "We found no difference between the aged trial balance and the general ledger account."

We appreciate the opportunity to comment on the exposure draft. Should you have questions or desire further details about our comments, please contact me or Dianne K. Mitchell of my staff.

Sincerely,



Arthur A. Hayes, Jr., CPA, Chairman  
Financial Management Standards Committee

**AICPA**

American  
Institute of  
Certified  
Public  
Accountants

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New York, NY 10020

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Fax (212) 596-6213

For Reference  
Do Not Take  
From the Library

February 10, 1995

File Ref. No. 1120  
3615

To the Auditing Standards Board:

Here are additional comment letters received to date on the proposed Statement on Auditing Standards, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*.

**Name/Affiliation**

**Location**

- |  |                  |
|--|------------------|
| 17. David C. Wilson<br>California Society of CPAs  | Redwood City, CA |
| 18. James P. Gross<br>J.I. Kislak Mortgage Corporation   | Miami Lakes, FL  |
| 19. Steven T. Downey<br>Providian Corporation  | Louisville, KY   |
| 20. Deborah D. Lambert<br>Johnson Lambert & Capron   | Bethesda, MD     |
| 21. Jon Flair<br>Keith Besson<br>Lyn M. Tew<br>Accounting and Auditing Standards<br>Committee<br>Louisiana Society of CPAs | Baton Rouge, LA  |
| 22. Michael Pierce<br>Auditing Services Committee<br>Illinois Society of CPAs  | Chicago, IL      |
| 23. Larson Allen Weishair & Co., LLP   | Minneapolis, MN  |

February 10, 1995  
Auditing Standards Board  
Page 2

Name/Affiliation

Location

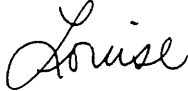
24. KPMG Peat Marwick, LLP

New York, NY

25. Coopers & Lybrand

New York, NY

Sincerely,



A. Louise Williamson, CPA  
Technical Manager  
Auditing Standards Division

ALW/jw

cc: Agreed-Upon Procedures Task Force



California  
Society  
Certified  
Public  
Accountants

January 16, 1995

Auditing Standards Division  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, N.Y. 10036-8775

Attention: Ms. A. Louise Williamson

Re: File 3615 - Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement  
Agreed-Upon Procedures Engagements

The Accounting Principles and Auditing Standards Committee of the California Society of Certified Public Accountants ("AP & AS Committee") has discussed the Exposure Drafts of the proposed Statement on Auditing Standards, Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement and the proposed Statement on Standards for Attestation Engagements, Agreed-Upon Procedures Engagements and would like to express its concerns regarding these exposure drafts.

The AP & AS Committee is a senior technical committee of the California Society of Certified Public Accountants. The 1994/95 Committee is comprised of 44 members, of which 17% are from national CPA firms, 52% are from local or regional firms, 20% are sole practitioners in public practice, 4% are in industry, and 7% are in academia. In addition, 1 former member of the Auditing Standards Board serves on the AP & AS Committee.

The following comments represent the findings of the Committee's discussion on the AICPA Exposure Drafts.

Mirror Statements

Our primary concern regarding these proposed standards for agreed-upon procedures is the fact that they are embodied in two separate statements under different standards. We don't believe that separate statements serve any meaningful purpose.



Although these statements purport to "mirror" each other they are sufficiently different to cause confusion as to which standards should be applied in any given situation. We believe that these statements should be under a single statement namely as a statement on Standards for Attestation Engagements.

If a single statement was issued for agree-upon procedures under Standards for Attestation Engagements, the section of the statement dealing with "Assertions and Related Subject Matter" could be appropriately revised to discuss the different assertion requirements for the various types of engagements. Specifically, the standards could differentiate between those engagements for which assertion are already expressed (when the procedures related to one or more specified elements, accounts, or items of a financial statement) and those for which a written assertion would be required to be presented to the practitioner. Furthermore, the board might consider whether the inclusion of a decision tree into the single standard would be helpful to the practitioner in determining the need for the establishment of a written assertion.

#### Title of Reports

We believe the board should reconsider the titling of the reports issued on agreed-upon procedures engagement. Since the procedures do not constitute an audit in accordance with generally accepted auditing standards, we recommend that the statements preclude the use of the term "Auditor" in the title. Use of this term is, at best, confusing to the reader, and might be considered misleading.

#### Engagement Letter

We noted that the discussion of those items which might be included in an engagement letter did not include fee arrangements. Although this matter is not critical to the establishment of standards, we believe that, if suggested matters for an engagement letter are discussed, it would be appropriate to include fee arrangements in the listing of items.

Thank you for the opportunity to submit our comments.

Sincerely,



David C. Wilson, Chairman  
California Society of Certified  
Public Accountants,  
Accounting Principles and  
Auditing Standards Committee



January 27, 1995

AICPA  
A. Louise Williamson, Technical Manager  
Auditing Standards Division, File 3615  
1211 Avenue of the Americas  
New York, NY 10036-8775

Re: Proposed Statement on Auditing Standards "Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement.

Dear Ms. Williamson:

It was with regret that I read the above referenced proposed Statement. Of particular concern to our company, as well as the entire mortgage banking industry, is the proposed elimination of internal audit support of the independent auditor on agreed upon procedures engagements. Historically, our internal audit and quality control departments have performed agreed-upon procedures in support of the independent auditor who, in turn, performed appropriate tests to verify the accuracy, completeness, and competency of their work.

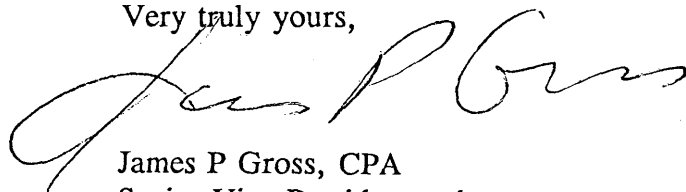
We do not agree with the elimination of internal audit assistance of the independent auditor for the following reasons:

- For us, the SAS would apply to the procedures performed by our external auditors for the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Of significance is the fact that our internal audit and quality control staffs are inherently more qualified to perform the procedures due to their well-developed knowledge of Freddie Mac's servicing guidelines.
- The internal auditors are independent, do not perform any line responsibilities within the corporation, and report directly to the audit committee of the board of directors. In addition, the quality control manager has direct access and reporting responsibilities to the audit committee.

- The proposed Statement contradicts both the letter and spirit of SAS 65, "The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements."
- The proposed Statement also contradicts Section 550 of the "Standards for the Professional Practice of Internal Auditing" which addresses the coordination of the internal and external auditors to accomplish the overall objective of control without unnecessary duplication.
- Finally, members of the mortgage banking industry currently must pay the cost of obtaining a long list of reports and letters prepared by our external auditors; and we can only expect the list to grow longer. Our internal auditors must be allowed to provide assistance to the external auditor and perform much of the compliance work leading to the production of these reports and letters. If not, annual audits by public accountants will become cost prohibitive for many of us.

As Chief Financial Officer of J. I. Kislak Mortgage Corporation, I strongly urge you to delete paragraphs 21. and 22. from the proposed Statement regarding engagements to apply agreed-upon procedures. Thank you for your thoughtful consideration of this issue of critical importance to a large industry.

Very truly yours,

A handwritten signature in black ink, appearing to read "James P. Gross". The signature is fluid and cursive, with a large initial "J" and "G".

James P Gross, CPA  
Senior Vice President and  
Chief Financial Officer

JPG/bk

Providian Corporation  
400 West Market Street  
Post Office Box 32830  
Louisville, Kentucky 40232  
502 560-2000



January 30, 1995

Ms. A. Louise Williamson  
Technical Manager  
Auditing Standards Division  
File 3615  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Re: Proposed Statement on Auditing Standards -- *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement* and Proposed Statement on Standards for Attestation Engagements -- *Agreed-Upon Procedures Engagements*

Dear Ms. Williamson:

We are pleased to comment on the above mentioned AICPA proposals dated October 28, 1994. As one of the largest stock-owned consumer financial services companies in the United States, Providian Corporation frequently engages independent accountants to perform agreed-upon procedures for securitization transactions, compliance with debt covenants, borrowing base certificates and other types of specialized engagements. These agreed-upon procedure engagements play a critical role in meeting financial reporting obligations to our constituents, including directors, shareholders, creditors, regulatory bodies, investors and others.

We are very concerned with both proposed statements as they relate to the use of and reliance on internal auditors to assist in the performance of agreed-upon procedures. We take particular exception to paragraphs 21 and 22 of both proposed statements, which state that the agreed-upon procedures to be enumerated or referred to in the independent accountant's report are to be performed entirely by the independent accountant. We have developed a well qualified, trained, diversified and independent internal audit department that operates effectively and provides value-added services to both the Corporation and indirectly to our independent accountants. Our internal audit department works closely with the independent accountants in assisting in the performance of agreed-upon procedures as well as providing assistance in the financial statement auditing process. The following paragraphs outline our concerns.

Statement of Auditing Standards Number 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements* ("SAS 65"), provides guidance to the

independent accountant on considering the work of internal auditors and on using internal auditors to provide direct assistance to the independent accountant in an audit performed in accordance with generally accepted auditing standards. If the independent accountant concludes that the internal audit function (or internal auditor) satisfies the requirements of SAS 65, then the independent accountant may use the work of internal auditors to provide direct assistance during the audit of the financial statement of an enterprise. We believe that the proposed statements are not consistent with SAS 65. The proposed statements do not place any reliance on the independent accountant's previous assessment of the internal audit function during the audit of the financial statements of an enterprise. Instead, the proposed statements totally disregard the importance of the internal audit function to the enterprise and the value that such function provides to the management and board of directors of the enterprise. We strongly believe that the proposed statements penalize those enterprises which have strong internal audit functions and which use the same independent accountant to perform both the audit of the financial statements and the performance of agreed-upon procedures.

In our situation, the independent accountants have been engaged to perform the audit of the financial statements for several years. As a result of this recurring engagement, they have continuously found our internal audit function to be objective, competent and independent, and therefore, have relied on the support provided by internal audit during the audit of the financial statements. In addition, we engage our independent accountants to perform several agreed-upon procedures as required by certain third parties. Since our independent accountants have determined that the internal audit function satisfies the requirement of SAS 65, they place a significant amount of reliance on the work performed by our internal audit department. Without the reliance on the internal audit function, we believe that external accounting fees for agreed-upon procedures engagements would increase dramatically. We estimate that our external accounting fees would increase by approximately \$400,000 per year as a result of the provisions included in paragraphs 21 and 22 of the proposed statements. As demonstrated by this amount, we believe that the proposed statements create an unnecessary financial burden on an enterprise like ourselves while, at the same time, not improving the overall quality of the agreed-upon procedures report provided to the third party. We believe that the third parties using the agreed-upon procedures reports will be indifferent as to whether the work of an internal audit department is used as long as the independent accountant followed the same standards that are already established by SAS 65.

We also have concerns regarding the impact of these proposed statements as they relate to regulatory requirements. Several industries, especially the banking industry, require certain agreed-upon procedures to be performed in addition to annual financial statement audits in order to be in compliance with governmental regulations. Debt or other revolving credit arrangements also require procedures that are to be performed annually or quarterly. In most instances, independent accountants have utilized the support of an internal audit function to assist in performing these procedures if the requirements of SAS 65 were met. We understand that paragraphs 21 and 22 of the proposed statements allow internal auditors to perform and report separately on procedures that they have carried out, and that the independent

Ms. A. Louise Williamson  
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January 30, 1995



accountant may test and report on the work of the internal auditors. In this situation, agreed-upon procedure requirements would need to be renegotiated with the third party users, since it may be unacceptable to them for the independent accountant to report on internal audit's work and not the actual agreed-upon procedures. We believe that the costs and time to renegotiate these agreed-upon procedures with third party users would far outweigh any current benefit derived from the process. It is very likely that these renegotiations could extend for an inordinate period of time, especially with certain governmental regulatory agencies. Accordingly, we believe that this option does not provide a viable alternative to current requirements for agreed-upon procedure engagements.

We recognize that there may be concerns about the perception that is created when independent accountants use the work of internal auditors for agreed-upon procedures engagements and then use language in their reports that may imply that the procedures were performed solely by the independent accountant. As an alternative, we believe that it would be appropriate for the independent accountant to make reference in the agreed-upon procedures report to the procedures performed by the internal auditors and provide a statement that their work was reviewed in accordance with standards established by the AICPA. This alternative would inform the third party user that the internal auditors performed certain procedures during the engagement in accordance with standards established by the AICPA without increasing the cost to the enterprise of the agreed-upon procedures engagement.

In summary, we strongly disagree with the provisions included in paragraphs 21 and 22 of the proposed statements. We believe that this guidance is inconsistent with SAS 65 and will result in a significant increase in cost to most enterprises while providing no additional benefit to the enterprise or to the third-party user of the agreed-upon procedures report. Accordingly, we respectfully request that paragraphs 21 and 22 of the proposed statements be amended to eliminate the inconsistency with SAS 65 or that an alternative such as that discussed above be permissible in agreed-upon procedures reports issued by independent accountants.

We appreciate the opportunity to present our comments and would be happy to discuss our views in greater detail with the Auditing Standards Board or its staff.

Very truly yours,

A handwritten signature in cursive script that reads "Steven T. Downey".

Steven T. Downey  
Vice President and Controller

STD/rwd

January 30, 1995

A. Louise Williamson, Technical Manager  
AICPA  
Auditing Standards Division, File 3615  
1211 Avenue of the Americas  
New York, New York 10036-8775

Dear Ms. Williamson:

These comments are in response to the SAS and SSAE Exposure Drafts, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement and Agreed-Upon Procedures Engagements*. Before providing detailed comments, I would like to indicate my support for the issuance of these standards substantially as exposed.

Detail Comments:

1. I understand that throughout the development of these proposed standards, there has been a great deal of discussion as to whether there should be one standard, rather than two. While I intuitively support the simplification that that would provide, I do not believe that such simplification is practical given the current structure of the standards. Generally, the cut among the assurance standards is that assurance services on historical financial statements appear in the SASs (audit, including by-product services, and agreed-upon procedures) or in the SSARs (review and compilation). Assurance services on all other types of information appear in the SSAEs (examination, review and agreed-upon procedures). The structure being proposed by these two exposure drafts is consistent with this historical division.

There are other examples of repetition between the three types of assurance standards. SSAE 1 sets forth general, fieldwork and reporting standards for attestation services many of which are identical or substantially the same as the Auditing Standards. A SSAE standard for *Working Papers* is currently being exposed which is substantially the same as the working paper standard found in the SASs. Thus while perhaps the basic structure of the standards should be challenged, it should be challenged from the top down. To challenge it at the level of these AUP standards would not solve the larger conceptual issue.

2. The reference to "subject matter" in paragraphs 3 and 6 of the proposed SAS while probably theoretically sound may confuse the auditor. Auditors have worked successfully with SAS 35 for many years without the need for this definition. I do not believe that this addition in the standard is intended to change or clarify anything that is happening in practice. Accordingly, the SAS might be more user friendly if subject matter was deleted from paragraph 3 and the next to last sentence of paragraph 6 was deleted. The discussion of subject matter should still be retained in the SSAE as it has more substance in that context.

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**JOHNSON LAMBERT & CAPRON**

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1350 Connecticut Avenue, NW  
Washington, DC 20036  
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Fax (202) 659-4047

3. Inclusion of a sample engagement letter in an appendix would be helpful to the practitioner and would probably promote the use of such letters as it would facilitate the preparation of the letters.

4. In paragraphs 3, 9b 10 and the heading to 10 in the proposed SAS (and in the corresponding paragraphs of the SSAE) the words "agree" and "participate" seem to be used interchangeably. I am concerned that this could lead to confusion.

5. Is it really necessary to include a separate section re. working papers in the proposed SAS. A SAS on working papers already exists. Perhaps referencing it and making any appropriate conforming changes to that standard (i.e. footnotes) could delete the need for another work paper section in this SAS.

6. Paragraph 35j of the proposed SAS (and comparable reference in the SSAE) does not indicate how this wording would change in the circumstance where an audit of the financial statements was performed? I presume that the reference to financial statements would be deleted but that the reference to specified elements, . . . would remain? Is it OK to refer to the audit report even if it was an unqualified opinion? Footnote 14 provides guidance when a departure from the standard opinion was noted in the auditor's audit report.

I appreciate the opportunity to comment on these proposed standards.

Very truly yours,



Deborah D. Lambert  
Partner



AICPA  
A. Louise Williamson, Technical Manager  
Auditing Standards Division, File 3615  
1211 Avenue of the Americas  
New York, NY 10036-8775

**COMMENTS ON EXPOSURE DRAFT #800076 (ENGAGEMENTS TO APPLY  
AGREED-UPON PROCEDURES TO SPECIFIED ELEMENTS, ACCOUNTS, OR  
ITEMS OF A FINANCIAL STATEMENT, dated October 28, 1994 -  
comment date, January 31, 1995)**

Name and affiliation of respondents:

Jon Flair, Chairman  
Keith Besson, Member  
Lyn M. Tew, Member

Accounting & Auditing Standards Committee  
Society of Louisiana CPAs

- Page 13, Paragraph 12, Lines 2 & 3: The use of the word "assume" may serve to confuse the reader.

- Users of this SAS would probably benefit from the inclusion of a sample Engagement Letter.

- It has been pointed out by one member that there may be several promulgations regarding this same issue; he cites SSAE No. 3, this proposed SAS, and a proposed SSAE. He questions the need for three separate pronouncements.

- Paragraph 5: One member questions the reference to "interpretive guidance" relative to the third Standard of Fieldwork...it is unclear to him what is meant by "interpretive guidance" in this context.

- Paragraph 16, Line 2: Because of "shortcuts" in syntax, the possessive character of the word "user's" appears to be incorrect. Only slight revision of the wording would sufficiently clarify this sentence.

- Page 11, Footnote 7, Line 4, near the end: The word "an" is mistyped...it should be "any".

- Overall, the additional guidance in this area will be very useful...especially good are Paragraphs 17 through 22 discussing procedures that are inappropriate and the allowable use of Internal Audit work.



22

January 23, 1995

A. Louise Williamson  
Technical Manager  
Auditing Standards Division  
File 3615  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Re: File 3615, Proposed Statement on Auditing Standards - Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of Financial Statements

Dear Ms. Williamson:

The Auditing Services Committee of the Illinois CPA Society is pleased to submit its response to the request for comments on the above referenced Exposure Draft.

**Paragraph  
No.**

**Comment**

- 11 An example of an engagement letter would be useful particularly with respect to the requirement described in paragraph 9b regarding the participation of specified users in establishing the procedures to be performed and their acknowledging responsibility for their sufficiency. A discussion and example of a letter adding specified users as discussed in paragraph 40 should also be considered.
- 39 An example of an auditors report to be issued in the situation described in this paragraph would be useful. Also guidance should be furnished regarding when withdrawal from the engagement is a more appropriate course of action than describing the restrictions on the performance of procedures in an explanatory paragraph of the auditor's report, as contemplated in paragraph 37.

These comments represent the views of the Illinois CPA Society rather than that of any of the individual members of the committee or the organizations with which they are associated.

Sincerely,

Michael Pierce  
Chairman of Auditing Services Committee

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23



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220 South Sixth Street  
Minneapolis, MN 55402-4505

January 31, 1995

Ms. A. Louise Williamson, Technical Manager  
Auditing Standards Division, File 3615  
1211 Avenue of the Americas  
New York, NY 10036-8775

Re: **Exposure Draft - Proposed Statement on Auditing Standards Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement**

**Exposure Draft - Proposed Statement on Standards for Attestation Engagements Agreed-Upon Procedures Engagement**

Dear Ms. Williamson:

We appreciate the opportunity to comment on the two Exposure Drafts relating to agreed-upon procedures engagements. While we agree with the general guidance contained in these Exposure Drafts, we disagree with the issuance of two separate standards. We feel that the effect of having two similar standards in different parts of the authoritative literature will be to cause confusion in practice.

The rationale for having two standards is that under the audit standard management's assertion is embodied in the financial statements whereas in cases covered by the attestation standard management makes a separate written assertion. We feel the distinction will become blurred in practice and could be erased by requiring a written assertion for all agreed upon procedure engagements.

A single engagement could also require application of both standards. Paragraph 30 of each standard gives descriptions of situations in which the standard would apply. In the proposed SAS there is an example of an agreed upon procedure to "trace all outstanding checks appearing on a bank reconciliation as of a certain date to checks clearing in the bank statement of the subsequent month." In the proposed attestation standard there is an example of a procedure to "examine all check requests issued during a specified period of time to the order of 'cash' for evidence of an authorized signatory approving such payments." These procedures would likely be combined in a single engagement, leaving the practitioner

January 31, 1995  
Ms. A. Louise Williamson  
Page 2

with confusion as to which standard to apply. The reports are also so similar that practitioners may be confused about which standard to apply.

We feel that the guidance for agreed-upon procedures could be accomplished with one standard. We do not find the rationale for having two standards compelling enough to justify two standards when a general problem of standards overload exists.

Thank you for the opportunity to offer our comments on the Exposure Drafts.

Sincerely,

*Larson, Allen, Weishair & Co., LLP*  
LARSON, ALLEN, WEISHAIR & CO., LLP

February 3, 1995

Ms. A. Louise Williamson  
Technical Manager  
Auditing Standards Division  
American Institute of Certified Public Accountants, File 3615  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Williamson:

We are pleased to respond to the AICPA Auditing Standards Board's request for comment on the exposure draft: "Proposed Statement on Auditing Standards, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*" (the proposed SAS). We support the issuance of the proposed SAS and the "Proposed Statement on Standards for Attestation Engagements, *Agreed-Upon Procedures*" (the proposed SSAE). We believe that the Board's decision to propose "mirror" standards is an appropriate and practical response to the immediate needs of the profession. However, we present the following comments and suggestions for the Board's consideration:

Paragraph 1. – In the Summary of the proposed SAS, the Board indicated that conforming changes would be required to the Attestation Engagements Interpretation, *Responding to Requests for Reports on Matters Relating to Solvency* (AICPA, Professional Standards vol. 1, AT sec. 9100.33-.44). Because the interpretation provides additional guidance with respect to performing agreed-upon procedures engagements under the proposed SAS on matters relating to solvency, we suggest that the proposed SAS make reference to that additional guidance in a footnote to paragraph 1, such as the following:

Attestation Engagements Interpretation, *Responding to Requests for Reports on Matters Relating to Solvency* (AICPA, Professional Standards vol. 1, AT sec. 9100.33-.44) provides additional guidance with respect to engagements to apply agreed-upon procedures to matters relating to solvency.

Paragraph 2.c. – In light of the issuance of SAS No. 74, we recommend that this paragraph and footnote 2 be rewritten to simply exclude from the scope of the proposed SAS any engagements to which SAS No. 74 is applicable.

Paragraph 2.e., Footnote 3. – The footnote should be rewritten to conform with the amended SAS No. 72 when finalized, or deleted. We do not see the point of having the footnote as it adds no substantive guidance beyond that in paragraph 2.e.

Paragraph 3., Footnote 4. – As it has in other attestation standards, we recommend the Board take this opportunity to preclude the performance of review attestations on specified elements, accounts, or items of a financial statement. Allowing reviews of specified elements, accounts or items of a



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financial statement under SSAE1 might enable the circumvention of the Board's intent in paragraph 26 (that auditors should not provide negative assurance) by having the auditor perform services under both the proposed SAS and under SSAE1.

Paragraph 5. – In the second sentence, the phrase “interpretative guidance relating to the application of the third standard of field work” could be misconstrued to mean AU § 326 of the AICPA Professional Standards. If the Board's intent is to provide guidance that the auditor need only to obtain evidence related to the procedures agreed upon, then we suggest that this sentence be replaced with the following: “The auditor should follow the interpretive guidance in paragraph 17 of this Standard with respect to application of the third standard of field work. The auditor also should follow the reporting standards as addressed in this Statement.” Also, see our related comment on paragraph 17.

Paragraph 9.d. – Isn't it the specific subject matter on which the procedures will be performed that should be capable of reasonably consistent estimation or measurement? If not, this condition implies that a finding can be an estimate, yet reporting such a finding would seem to require vague language (such as “the amount was approximately...”) which paragraph 28 indicates should be avoided. We suggest that this condition for engagement performance be modified as follows: “The specific subject matter on which the procedures are to be performed is subject to reasonably consistent estimation or measurement.”

Paragraph 10. – The word “specified” should be inserted before “users” in the second bullet and a conforming change should be made to paragraph 17b of SSAE3.

Paragraph 16. – We suggest deleting the word “great” from the third sentence as it is superfluous.

Paragraph 17. – The last sentence states: “The auditor needs only to obtain evidence related to the procedures agreed upon.” As this sentence appears to be the Board's guidance on applying the third standard of fieldwork, we recommend that this guidance be more direct, such as: “The auditor should obtain evidential matter to provide a reasonable basis for the finding or findings expressed in his or her report. The auditor need not obtain any other evidence about subject matters to which the agreed-upon procedures are or are not applied.”

Paragraph 19. – Although we believe that “obtaining an understanding about a particular subject” encompasses gaining an understanding of the internal controls, we suggest that the example be clarified on this point by adding the following parenthetical to the end of the third bullet: “(including the internal control structure or any component thereof).”

Paragraph 19. – The comparable paragraph in the proposed SSAE includes an additional bullet, “evaluating the competency or objectivity of another party.” We believe that this item is equally relevant to this standard and recommend that it be added here for consistency.

Paragraph 30. – In order to present a realistic example, we believe that the second example should be to compare the invoices listed in the columns other than “over ninety days old” to the outstanding invoice rather than comparing the “over ninety days” amounts to the outstanding invoice. Additionally, the word “outstanding” should be deleted from the example as it implies that the auditor determined that the invoice had not been paid as of the date of the listing. We suggest the following wording:

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*Procedure Agreed Upon:* Compare the amounts of the invoices in the aging columns other than “over 90 days” shown in an identified schedule of aged accounts receivable of a specific customer as of a certain date (the “aging date”) to the amount and invoice date shown on the invoice, and determine whether or not the amounts agree and whether or not the invoice date is 90 days or less than the aging date.

*Example Finding:* All invoice amounts on the identified schedule in the aging columns other than “over 90 days” agreed to the amounts on the invoices, and the invoice dates indicated on the identified schedule for such invoice amounts were 90 days or less than the aging date.

Paragraph 35.j., Footnote 11. – In order to be consistent with paragraph 36, the example wording in footnote 11 should be revised and include an example disclaimer as follows: “These agreed-upon procedures do not constitute an audit or review of financial statements or specified elements, accounts, or items thereof, the objective of which is the expression of opinion or limited assurance on the financial statements or specified elements, accounts or items thereof. Accordingly, we do not express such an opinion or limited assurance.”

Paragraph 35.j., Footnote 12. – This footnote addresses the auditor’s responsibility when consenting to inclusion of an agreed-upon procedures report in a document containing the entity’s financial statements. We suggest that the Board consider adding a precaution about restriction of use similar to that in paragraph 40 by adding the following sentence to the end of the first paragraph of footnote 12: “Because the use of the auditor’s report on applying agreed-upon procedures is restricted as required by paragraph 35.l., the auditor should not consent to the inclusion of his or her report in any document or written communication for use by other than the specified users.”

Paragraph 40. – The third sentence of this paragraph states that, when adding specified users, “the auditor *normally* should obtain written acknowledgment from such added specified users . . . .” We believe that the auditor *always* should obtain acknowledgment from the users regarding their responsibilities and that the acknowledgment *normally* should be in writing. We recommend that this sentence be revised to read: “The auditor should obtain acknowledgment from such added specified users, normally in writing, concerning...”

Paragraph 43. – We suggest the following change to the second sentence of this paragraph: “However, if matters come to the auditor’s attention by other means that contradict the basis of accounting for the specified elements, accounts, or items of a financial statement ~~being reported on~~ **presented**, such information ordinarily should be included in his or her report.” When the auditor is engaged to perform procedures on only a portion of a presentation, we believe that this revision would appropriately delineate the auditor’s responsibility also to report information about the items presented which were not within the scope of the agreed-upon procedures engagement. For example, assume the following situation occurred:

Management’s presentation is a schedule of current assets including cash, receivables and inventory. The auditor is engaged to perform agreed-upon procedures only on the receivables and inventory. The auditor becomes aware, by means other than applying the agreed-upon procedures to the receivables and inventory, that cash is materially misstated.

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As written in the proposed SAS, paragraph 43 would not require the auditor to report the misstatement of cash as it is not an element, account, or item "being reported on."

Paragraph 43. – We suggest that the example (third sentence) be clarified by inserting the following parenthetical expression after the word "discovers": (by means other than performance of the agreed-upon procedures).

Paragraph 43., Footnote 14. – We suggest that the footnote be expanded to cover situations in which the auditor (accountant) performed a review or compilation engagement and issued other than the standard report. We suggest the following revisions to the footnote:

If the auditor has performed (or has been engaged to perform) an audit, review or compilation 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 or modification of a standard report (SAS No. 58, *Reports on Audited Financial Statements* [AICPA, Professional Standards, vol. 1, AU sec. 508] or SSARS No. 1, *Compilation and Review of Financial Statements* [AICPA, Professional Standards, vol. 2, AR sec. 100.39-41]), he or she should consider including a reference to the auditor's report and the departure from or modification of the standard report in his or her agreed-upon procedures report.

Paragraph 49. – The third sentence indicates that the auditor's agreed-upon procedures report "may be included or combined" with other reports on services performed under other standards. Although we do not believe the practice should be prohibited, we believe that this practice should not be encouraged by indicating the auditor's report "may be included or combined." We suggest the third sentence be replaced with: "Reports on applying agreed-upon procedures to specified elements, accounts or items of a financial statement generally should not be combined with reports on such other services. However, when such reports are combined, or the separate reports are included in a single document or written communication, the types of services must be clearly distinguished and the applicable standards for each service should be followed."

Paragraph 50. – We recognize that the proposed effective date of June 30, 1995 will be reconsidered in light of the timing of the final issuance of the standard and recommend at least a six-month extension. However, transitional problems have been encountered in the past, with respect to agreed-upon procedures reports required by regulatory agencies, because the AICPA Audit and Accounting Guides were not updated prior to the effective dates of previous standards and for other reasons. Accordingly, we recommend that the Board immediately initiate consideration by the AICPA and its committees of conforming changes to industry audit and accounting guides to ensure that the guides will be current when the proposed SAS becomes effective.

Appendix, page 24, item 4. – Reference to "sample size" in last sentence of the second paragraph connotes the number of items rather than the dollar amount of those items. We suggest the following wording to replace this sentence: "The total of the account balances selected for tracing was 9.8% of the aggregate amount of the customer account balances."

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We appreciate the opportunity to provide our comments and suggestions on the proposed SAS.

Very truly yours,

*KPMG Peat Marwick LLP*

KPMG Peat Marwick LLP

January 31, 1995

Ms. A. Louise Williamson  
Technical Manager, Auditing Standards Division  
File 3615  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Williamson:

We do not support the issuance of the proposed Statement on Auditing Standards (SAS), Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement. We believe that the document contains some improvements over SAS No. 35, but these improvements have been overshadowed by a complex document that makes a relatively straight-forward service seem unduly complicated. In addition, we disagree with some specific elements of the proposal.

#### Areas of Agreement

We believe that some of the changes included in the proposed SAS should be included in any final document that amends SAS No. 35. We believe that the guidance on procedures to be performed (contained in paragraphs 16-19) and on the manner in which findings should be expressed (contained in paragraphs 26-30) is helpful. In particular, we strongly support the elimination of negative assurance in reporting the results of applying agreed-upon procedures. Furthermore, the guidance on nonparticipant parties (contained in paragraph 40) addresses a situation that is not uncommon in practice.

#### Areas of Disagreement

##### 1. Subject Matter and Assertions

Agreed-upon procedures, pursuant to this SAS, may be applied to accounting information that is less than a financial statement. The discussion of subject matter and assertions unnecessarily complicates this simple declaration of the object of the procedures.

In performing and reporting on agreed-upon procedures, the auditor provides no assurance, makes no evaluations or judgments, and accepts no responsibility for the adequacy or the completeness of the procedures. Therefore, there is no need to place the accounting information to which the procedures will be applied within the context of an assertion.

If the auditor is associated with an assertion that is more comprehensive than the specific subject of the procedures, which it normally would be, there is an increased risk that users of the report would be misled. Users may assume that, despite our protestations to the contrary, we would tell them if the procedures they select do not address significant matters relating to the assertion. Furthermore, users may take comfort from our lack of comment regarding aspects of the assertion for which procedures were not performed.

We suggest changing paragraph 6 to read as follows:

6. *Specified elements, accounts, or items of a financial statement* refers to accounting information that is a part of, but 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; may be derived therefrom by analysis, aggregation, summarization, or mathematical computation; or may be derived from accounting records that have been summarized therein.<sup>6</sup> In an engagement to apply agreed-upon procedures, it is the accounting information to which the auditor's procedures are applied. The procedures enumerated or referred to in the auditor's report may describe the criteria against which the results of the procedures are to be measured in deriving a finding.

<sup>6</sup> (no change suggested)

We also suggest deleting the words "the specific subject matter of" in the first sentence of paragraph 3.

In addition, we suggest deleting paragraph 8, since it does not provide significant helpful guidance.

## 2. Basis of Accounting

We do not see the need for an identified basis of accounting with respect to the accounting information, since agreed-upon procedures do not require such a frame of reference. The procedures are determined, or agreed to, by parties who obviously know what the information represents, otherwise they would not request the procedures to be performed in the first place.

We noted that the two illustrative reports in the Appendix do not refer to the basis of accounting of the information. Nevertheless, the reports are able to communicate clearly the accounting information to which procedures were applied and the findings of the procedures.

We suggest deleting subparagraph 9.c and subparagraph 35.d. The suggested version of paragraph 6 included above also deletes the reference to the basis of accounting therein. If paragraph 8 is retained (see comment above), we suggest deleting the portions of each of the items that refer to the basis of accounting.

## 3. Evidential Matter

The third standard of field work states, in part, "Sufficient, competent evidential matter is to be obtained ... to afford a reasonable basis for an opinion ..." This suggests that evidential matter is

relevant when an opinion or conclusion is expressed. In an agreed-upon procedures engagement, no opinion, conclusion, or level of assurance, is expressed. The auditor merely performs the procedures and states the findings. The auditor does not evaluate the competency or sufficiency of evidence.

We believe that SAS No. 35 was correct in stating that the third standard of field work does not apply to an agreed-upon procedures engagement. Since the auditor makes no judgments about the evidence, the requirement in subparagraph 9.e relating to evidential matter is irrelevant and perhaps confusing.

We suggest deleting subparagraph 9.e. In addition, we suggest changing subparagraph 31.b to read as follows, "The results of the procedures provide a reasonable basis for the finding or findings expressed in the auditor's report."

#### 4. Communications

The essential communications vehicle in an agreed-upon procedures engagement is the auditor's report. We believe that this form of communication, coupled with the requirement in paragraph 10 to obtain agreement on the procedures (which is also contained in SAS No. 35), is sufficient.

Paragraph 11 of the proposed SAS unduly complicates the service by requiring explicit communication of the terms of engagement, in addition to the requirements of paragraph 10, and strongly suggesting the need for an engagement letter to do so. It should be noted that such a requirement does not presently exist for any other form of attest engagement, including an audit. (Notwithstanding this comment, we believe such a communication would be very beneficial in connection with an audit.)

In addition, paragraph 41 of the proposed SAS suggests that the auditor consider the need for a representation letter, and suggests matters that might appear in such a letter. Such a provision in the SAS could create a de facto requirement, since an auditor would need to defend not requesting a representation letter.

We suggest deleting paragraphs 11, 41 and 42.

#### 5. Procedures on Internal Control Structure

We believe that it is inappropriate to permit, in an agreed-upon procedures engagement performed pursuant to a SAS, the inclusion of procedures that are already covered by an SSAE. In particular, SSAE No. 2, Reporting on an Entity's Internal Control Structure Over Financial Reporting, at AT 400.05, directs a practitioner engaged to perform agreed-upon procedures relating to management's assertion about the effectiveness of the entity's internal control structure to the guidance in the Attestation Standards, with the additional caveat that negative assurance should not be provided.

The practical effect of paragraph 20 of the proposed SAS would be to permit the same service to be provided under the SAS. Furthermore, it would permit these procedures to be performed without management making an assertion about the internal control structure's effectiveness.

Permitting agreed-upon procedures on the internal control structure to be performed in this manner provides a significant "loophole" that will remove one of the basic concepts of SSAE No. 2.

We suggest deleting paragraph 20 and subparagraph 35.k.

## 6. Internal Auditors

We do not believe that there is a solid conceptual or practical basis for the restriction with respect to internal auditors contained in paragraph 21 of the proposed SAS, which requires that the agreed-upon procedures be performed entirely by the auditor. We believe that it is appropriate for internal audit to be able to provide direct assistance to the auditor, 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 AU 322.27 with respect to the auditor's 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.

We suggest deleting paragraph 21, as well as the heading preceding the paragraph. Remaining paragraph 22, if deemed worthy of retention, could be added into the section on *Procedures to Be Performed*; however, if retained, the second bullet describing inappropriate procedures should be modified to refer only to procedures performed by internal auditors in situations other than while providing direct assistance to the auditor.

## 7. Relationship to Proposed SSAE

The AICPA Auditing Standards Board has issued, concurrent with the proposed SAS, a proposed Statement on Standards for Attestation Engagements (SSAE), Agreed-Upon Procedures Engagements. The two documents are very similar in many of their provisions, and in many cases are identical. One of the principal differences is the subject matter to which they relate. The proposed SAS addresses accounting information, and the proposed SSAE addresses information other than accounting information.

We believe that issuing two documents that are very similar, under two different portions of the professional literature, will be very confusing to practitioners. In fact, in many agreed-upon procedures engagements, information of both accounting and non-accounting nature are addressed. We suggest that a better solution would be to have one document address agreed-upon procedures, regardless of the nature of the information to which the procedures are applied.

As noted above in comment 1, we do not believe that an assertion is appropriate in connection with an agreed-upon procedures engagement. Although we believe that the best place in the literature for such a combined document is the Attestation Standards, they would need to be amended to delete the requirement for an assertion in connection with these engagements. We strongly encourage the Auditing Standards Board to develop a resolution to this dilemma that makes sense to practitioners.

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In summary, we believe that the proposed SAS is significantly flawed. As we said at the outset, the document succeeds in making a simple service appear overly complicated. We believe there are certain improvements that should be made to SAS No. 35, most importantly the elimination of negative assurance. We urge the Auditing Standards Board to consider an alternative approach that would make certain useful changes to SAS No. 35 without adding unnecessary burdens to practitioners.

We appreciate the opportunity to express our views. If you have any questions regarding our comments, please contact James S. Gerson at 212-536-2243 or A. J. Lorie at 212-536-2119.

Very truly yours,

*Coopers & Lybrand L.L.P.*