

# AGREED-UPON PROCEDURES ENGAGEMENTS



## A GROWTH AND VALUE OPPORTUNITY





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# INTRODUCTION

Agreed-Upon Procedures (AUP) engagements provide a great opportunity for small- and medium-sized practices (SMPs) to grow and provide a valued service to their clients. *International Standard on Related Services 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* (ISRS 4400) is the international standard that addresses AUP engagements. This publication outlines what an AUP engagement is, identifies the benefits to clients of offering such services and when it is appropriate. It covers examples of financial and non-financial information AUP engagements, six short case studies with example procedures that might be applied, and the illustration of an AUP report from ISRS 4400. The publication's primarily targeted audience is practitioners, regulators, and policy makers.

An AUP engagement involves a practitioner performing specified procedures that have been agreed-to by the practitioner, the entity, and any appropriate third parties. A report on the factual findings is prepared by the practitioner. No assurance is obtained and neither is a conclusion nor opinion expressed. The report is not distributed publicly—it is restricted to those parties that have agreed to the procedures. Users of the report draw their own conclusions from the procedures performed and the factual findings reported.



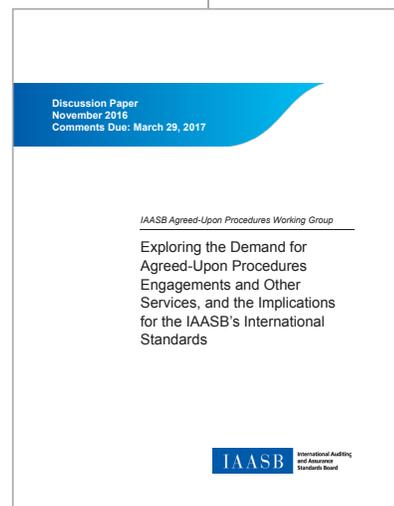
# INCREASING DEMAND



A wide range of stakeholders use reports of factual findings for a variety of reasons and the demand for AUP engagements continues to grow. For many entities, the demand for AUP engagements may be driven in part by the growth in regulation and the need for increased accountability around funding and grants. For example, funding bodies may ask for a report of factual findings to support or complement information such as audited financial statements or grant applications. For smaller entities, the increase in audit exemption thresholds in some jurisdictions may affect demand, prompting stakeholders to look for alternatives to audits. For example, banks may request a report of factual findings on receivables or inventory in place of audited financial statements. This more narrow focus may represent key areas of emphasis in support of lending agreements.

## IAASB AGREED-UPON PROCEDURES PROJECT

In 2015, the International Auditing and Assurance Standards Board (IAASB) formed a Working Group to help it understand AUP engagements use, national developments in relation to standards addressing AUP engagements, and broader market needs. The Working Group issued a Discussion Paper in November 2016, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*. In September 2017, following a review and discussion of the feedback, the IAASB approved a standard-setting project proposal to revise ISRS 4400. The present version of ISRS 4400 will remain valid until the IAASB issues the revised standard with a new effective date.



# THE BENEFITS AND USE OF AGREED-UPON PROCEDURES

- AUP engagements offer flexibility, as the service can be tailored to different circumstances and focused on individual items of financial data. For example, management may seek support that certain disclosures required by applicable standards have been provided or request a report for due diligence on an acquisition.
- Users may request specific work be performed to satisfy financing or supplier needs. For example, validating the inventory balance, confirming the accounts payables balances, verifying cash balances, or the appropriate use of grant funds. External users can also specify the format of required reporting.
- Factual findings may be reported with respect to the effective operation of particular financial reporting processes and controls. For example, a public sector organization may request an AUP engagement to report upon compliance with controls related to a regulatory regime.
- A report of factual findings can be included as a supplement to the financial statements adding credibility and comfort to management and staff.

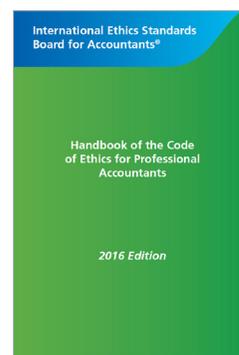
## PLANNING AND PROCEDURES

The practitioner should plan the work so that an effective engagement will be performed and the procedures agreed upon are carried out. The evidence obtained will be used as the basis for the report of factual findings. The procedures may include: inquiry and analysis, re-computation, comparison and other accuracy checks, observation, inspection, and obtaining confirmations.



## THE ROLE OF INDEPENDENCE IN AUP ENGAGEMENTS

According to ISRS 4400, the practitioner should comply with the *International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants*.



Independence is not a requirement for AUP engagements. However, the terms or objectives of an engagement, or national standards, may require the auditor to comply with the IESBA Code's independence requirements. Where the practitioner is not independent, a statement to that effect would be made in the report of factual findings.

# AUP ENGAGEMENTS ON FINANCIAL AND NON-FINANCIAL INFORMATION

ISRS 4400 is directed toward engagements regarding financial information. However, it may provide useful guidance for engagements regarding non-financial information, which are becoming increasingly prevalent.

Internationally, AUP engagements are commonly performed on both financial and non-financial information for a variety of purposes due to regulation or demand. Examples of these include reports on:

## BY REGULATION

- Specific historical financial information on a government-funded project or tender
- Capital adequacy ratios
- Reconciliations between different financial reporting frameworks
- Distributable retained earnings calculations
- Listed companies' results announcements and statements contained in listing circulars and prospectuses

## BY DEMAND

- Due diligence when buying, selling, or merging a business or part thereof
- Comparison of revenues generated or turnover certificates to supporting documents where rentals due/commissions payable to another party is based on a percentage of revenue
- Internal controls over financial reporting or corporate governance requirements
- Bank loan covenants
- Inventory balances and inventory checking processes
- Revenue and accounts receivable balances
- Greenhouse gas emissions
- Royalty agreements



# SAMPLE AUP ENGAGEMENTS

These examples are not exhaustive and are included to highlight a range of different AUP engagements being undertaken in different countries. The agreed-upon procedures listed are covered in broad, high-level terms as an illustration of the procedures that may be involved in AUP engagements.



## CASE STUDY 1

### PUBLIC GRANT

A not-for-profit organization undertakes clinical research for Parkinson's disease, cancer, kidney disease, and many other ailments. Their research activity includes 234 national research projects, 52 international ones, and 747 clinical trials. More than 600 highly qualified professionals have participated in the research.

Government regulations establish that public grants should be subject to an AUP engagement to support fulfillment of several conditions and requirements on the application of the funds for the research projects.

The agreed upon procedures for the organization receiving the grant include:

- Discuss and understand the general conditions related with the grant.
- Compare the schedule of expenditure presented to justify expenses incurred on the research project with supporting documents, inspect whether these have been authorized in accordance with the organization's authorization schedule, are recorded and classified in the accounting system in accordance with the terms of the grant, and verify they have been paid.
- Check that the organization has followed its general procedures in contracting goods and services.
- Agree the employees' time spent on the projects granted to individual timesheets.
- Inquire whether the organization has been receiving other grants for the same project.



## CASE STUDY 2

### NON-GOVERNMENTAL ORGANIZATION REPORT

An international non-governmental organization had granted an implementing partner a total of €650,000 for a project<sup>1</sup>. The financial year end of the implementing partner was December 20X1 and the financial statement audit was completed in March 20X2. Sufficient appropriate audit evidence was found that €645,000 had been used appropriately and in accordance with the project proposal. An unqualified audit report was issued.

The remaining balance of €5,000 was to be used for the payment of a report following the issuance of the financial statement audit opinion and completion of the project. An AUP engagement was undertaken where a practitioner was instructed to inspect evidence that it was used exclusively for the writing and editing of the project report.



<sup>1</sup> A standard currency unit is used in this example and referred to as "€"

# SAMPLE AUP ENGAGEMENTS



## CASE STUDY 3

### FINANCIAL INFORMATION

With the increase in the audit threshold, ABC Limited no longer requires a statutory audit of its financial statements. An AUP engagement was undertaken and focused on specific items of financial information.

The agreed-upon procedures include:

- Query management and analyze the inventory system that the company did not hold inventory above a predetermined amount that was older than 90 days as at December 31, 20XX (inventory ageing).
- Agree the cost price of the inventory as per the inventory system to the most recent purchase invoice (inventory accuracy).
- Check for all of the receivables balances as of December 31, 20XX that the outstanding amount was received by agreeing the amounts in the general ledger to cash receipts (receivables recoverability).
- Check the revenue reported by selecting the first five revenue orders of 20XY and the last five revenue orders of 20XX and inspect that they are accurately allocated (revenue cut-off).



## CASE STUDY 4

### MANAGEMENT FINANCIAL AND NON-FINANCIAL TARGETS

Every financial year at XYZ Limited, the shareholders and management sign a Performance Pack that sets financial and non-financial targets. On a quarterly basis, management carries out a self-assessment against the targets and submits a report to the Board of Directors for review and approval. At the end of each year, the shareholders appoint a practitioner and two engagement letters are signed: one for the audit and one specifically for the AUP on the Performance Pack, which results in a report of factual findings.

The agreed-upon procedures include:

- Discuss with management the process of extracting the data used from the underlying sources and document the result of the discussion in the report of factual findings.
- Agree/reconcile the data used in the Performance Pack to the underlying financial and non-financial data.
- Check the mathematical accuracy of the financial information used in the Performance Pack.
- Analyze the Key Performance Indicators (KPIs) as included in the Performance Pack against the targets set by management in its strategic plan.
- Obtain management representation on all the assertions made in the Performance Pack.

# SAMPLE AUP ENGAGEMENTS



## CASE STUDY 5

### LOAN AGREEMENT COVENANTS

CBA Limited has a loan agreement with a consortium of banks. The loan agreement requires that the rate of interest to be paid for the loan varies depending on the results of specific financial covenants. Detailed definitions for each of the financial covenants are described in the loan agreement and are derived from the financial statements of CBA Limited. The loan agreement also requires an AUP engagement to be undertaken to report on the calculation of the financial covenants.

The agreed-upon procedures include:

- Agree/reconcile the data used to calculate the financial covenants to the entity's general ledger.
- Check the mathematical accuracy of the calculation of the financial covenants.
- Confirm that the calculation is in accordance with the definitions of the financial covenants set out in the loan agreement.



## CASE STUDY 6

### DUE DILIGENCE

LMO Limited is a company producing automotive parts. It is considering purchasing an overseas company operating in the same sector. The overseas company prepares audited financial statements, but LMO Limited engages an accountancy firm to undertake an AUP engagement to obtain specific information that could be essential to the future development of the business.

The agreed-upon procedures include:

- Inquire about the revenue from the 10 largest clients over the last five years, including the percentage of each one compared to the total revenue.
- Inquire about the five products sold to each of the main clients, identifying the car model that used the product(s).
- Inquire about the confirmed orders for the next two years, identifying the product and car model.
- Inquire about the price of steel acquired in the last 24 months that has been used in the valuation of the inventory.
- Compare management's gross profit calculations for the last three years, considering the impact of revenue, non-recurring profits or losses, acquisition cost variations, and production changes, to internally generated system reports.

# REPORTING

The report of factual findings will describe the engagement purpose and the agreed-upon procedures, so the reader can understand the nature and extent of the work performed. Among other requirements this must include:

- The identification of the specific financial or non-financial information to which the agreed-upon procedures have been applied.
- A statement that the procedures performed were agreed upon with the recipient.
- Identification of the purpose for which the agreed-upon procedures were performed.
- A listing of the specific procedures performed.
- A description of the factual findings, including sufficient detail of errors and exceptions found.
- A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed.
- A statement that had the auditor performed additional procedures, an audit, or a review, other matters might have come to light that would have been reported.
- A statement that the report is restricted to those parties that have agreed to the procedures to be performed.
- A statement (when applicable) that the report relates only to the elements, accounts, items, or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole.

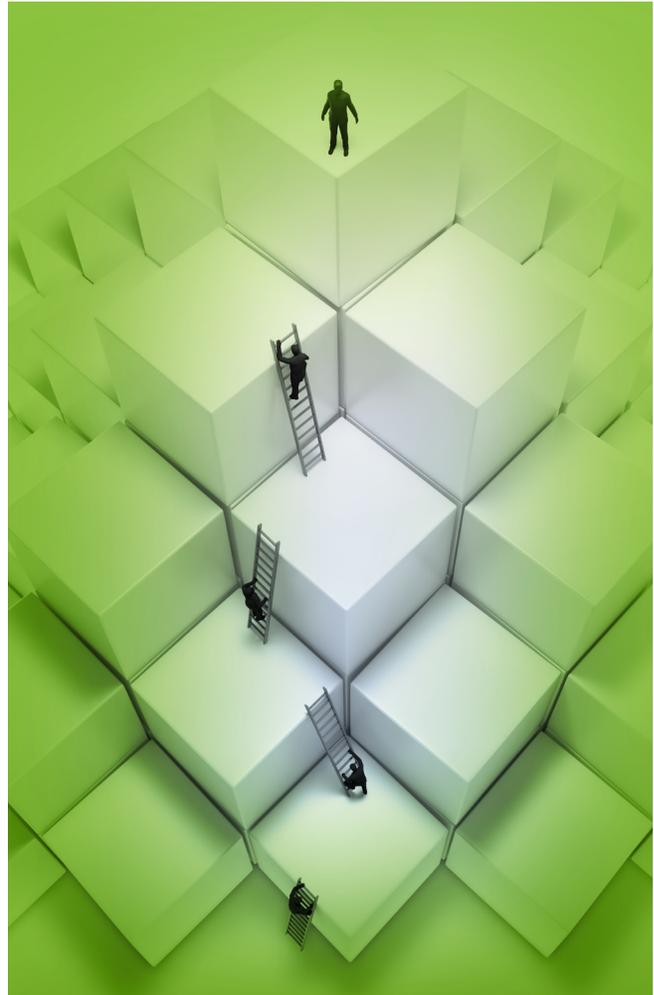


Illustration of a Report of Factual Findings in Connection with Accounts Payable



## REPORT OF FACTUAL FINDINGS

To (those who engaged the auditor)

We have performed the procedures agreed with you and enumerated below with respect to the accounts payable of ABC Company as at (date), set forth in the accompanying schedules (not shown in this example). Our engagement was undertaken in accordance with the International Standard on Related Services (or refer to relevant national standards or practices) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the validity of the accounts payable and are summarized as follows:

1. We obtained and checked the addition of the trial balance of accounts payable as at (date) prepared by ABC Company, and we compared the total to the balance in the related general ledger account.
2. We compared the attached list (not shown in this example) of major suppliers and the amounts owing at (date) to the related names and amounts in the trial balance.
3. We obtained suppliers' statements or requested suppliers to confirm balances owing at (date).
4. We compared such statements or confirmations to the amounts referred to in 2. For amounts which did not agree, we obtained reconciliations from ABC Company. For reconciliations obtained, we identified and listed outstanding invoices, credit notes and outstanding checks, each of which was greater than xxx. We located and examined such invoices and credit notes subsequently received and checks subsequently paid and we ascertained that they should in fact have been listed as outstanding on the reconciliations.

We report our findings below:

- (a) With respect to item 1 we found the addition to be correct and the total amount to be in agreement.
- (b) With respect to item 2 we found the amounts compared to be in agreement.
- (c) With respect to item 3 we found there were suppliers' statements for all such suppliers.
- (d) With respect to item 4 we found the amounts agreed, or with respect to amounts which did not agree, we found ABC Company had prepared reconciliations and that the credit notes, invoices, and outstanding checks over xxx were appropriately listed as reconciling items with the following exceptions:  
(Detail the exceptions)

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), we do not express any assurance on the accounts payable as of (date).

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the accounts and items specified above and does not extend to any financial statements of ABC Company, taken as a whole.

Date

Address

## IFAC RESOURCES

IFAC supports the SMP sector through a number of initiatives to raise the profile and build the capacity of SMPs globally. With input and guidance from the [SMP Committee](#), IFAC represents SMPs' interests to standard setters and regulators, facilitates sharing tools and resources to help them compete in the global marketplace, and speaks out to raise awareness of their role and value, especially in supporting small- and medium-sized enterprises (SMEs).

The IFAC [Global Knowledge Gateway](#) now hosts over 500 original articles and videos, and links to approximately 10,000 related resources and news from around the world. Sign up for [The Latest](#), our twice monthly Gateway digest.



There are a number of non-audit services available to SMEs, including review, compilation, other assurance, and engagements to perform agreed-upon procedures. The choice of service will depend on the circumstances for each individual entity and requires careful consideration. IFAC has a separate brochure designed for use by SMPs that explains and differentiates the range of financial reporting services SMPs can provide and tailor to meet the needs of their SME clients: [Choosing the Right Service: Comparing Audit, Review, Compilation, and Agreed-Upon Procedures Services](#).

For more information about IFAC,  
please contact:

Christopher Arnold  
Head of SME/SMP and Research

T +1 212 286 9344

[www.ifac.org](http://www.ifac.org)



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