

New Zealand Society of Accountants

AGREED UPON PROCEDURES ENGAGEMENT GUIDELINE 1

**GUIDELINE ON PERFORMANCE OF AN
AGREED UPON PROCEDURES ENGAGEMENT**

Issued by the Council, New Zealand Society of Accountants

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Introduction

- 1 This Guideline describes the general procedures that a member should consider when engaged to perform an agreed upon procedures engagement, and the form and content of the report that a member issues in connection with such an engagement. An agreed upon procedures engagement is designed to enable the member to present a report on factual findings on matters agreed upon between the member and the client. The procedures are agreed upon between the member and the client in order to meet the client's needs for particular information.
- 2 The basic principles governing a member's professional responsibilities when an agreed upon procedures engagement is undertaken and the Standards to be observed are contained in the *Statement of Agreed Upon Procedures Engagement Standards* (APS-1). Therefore, this Guideline should be read in conjunction with those Standards.
- 3 This Guideline is directed towards agreed upon procedures engagements relating to financial information. However, much of the guidance can be adapted to agreed upon procedures relating to non-financial information such as, for example, the verification of the results of voting procedures.

Nature of Agreed Upon Procedures

- 4 In an engagement to perform agreed upon procedures, a member is engaged to carry out procedures of an audit nature to which the member and the client have agreed in order to provide a report on the factual findings of the member. The procedures are agreed upon between the member and the client in order to meet the client's needs for particular information. Whereas audits are designed to enable the member to provide a high level of assurance on assertions, engagements to perform agreed upon procedures are not intended to enable the member to express assurance on assertions.
- 5 The member may be requested by the client to perform procedures of a limited nature designed to enable the member to express positive or negative assurance on specific financial information or procedures. (For example the client might request the member to assess the adequacy of the allowance for doubtful accounts at a point in time. Alternatively the member might be requested to give an opinion on the effectiveness of operation of internal controls). Such engagements would not constitute agreed upon procedures engagements. They would be either audit or review engagements because the member is expressing an opinion and is not merely reporting the results of factual findings from the procedures adopted. For such engagements, although limited in nature, the member should observe the Standards and Guidelines applicable to such engagements.

Terms of Engagement

- 6 Prior to the performance of the engagement, it is important that there is a clear understanding between the client and the member as to the nature and extent of the services to be provided and the responsibilities of the member and the client.
- 7 The member should arrange to meet with the client and, ordinarily, other specified parties who will receive copies of the report of factual findings, to ensure that there is clear understanding regarding:
 - the nature of the engagement including the fact that the procedures performed will not constitute an audit or a review and that accordingly, no assurance on assertions will be expressed;
 - the responsibilities of the client with respect to the provision of information to the member;
 - the client's stated purpose for the engagement;

- the nature of the elements, accounts, items or financial information to which the agreed upon procedures will be applied;
- the nature and extent of the specific procedures to be applied;
- the extent of the limited distribution of the report of factual findings. When such limitation would be in conflict with the law or regulations, the member should not accept the engagement; and
- the anticipated form and content of the member's report on factual findings.

In certain circumstances, the member may not be able to discuss the procedures with all the parties who will receive the report. In such cases, the member may consider, for example, discussing the procedures to be applied with appropriate representatives of the parties involved, reviewing relevant correspondence from such parties or sending them a draft of the type of report that will be issued.

To assist in reaching this understanding, the use of an engagement letter is recommended, as this provides the clearest record of agreement on the services to be provided and helps in avoiding misunderstanding with respect to the engagement.

An example of an engagement letter for an agreed upon procedures engagement appears in Appendix 1.

Performance of an Agreed Upon Procedures Engagement

8 The procedures applied in an engagement to perform agreed upon procedures will vary dependent on the nature of the engagement but may include:

- enquiry and analysis;
- recomputation, comparison and other clerical accuracy checks;
- observation;
- inspection; and
- obtaining confirmations.

9 In an Agreed Upon Procedures Engagement the member performs work to report factual findings based on work done as agreed between the member and the client. Unless specifically agreed with the client, the member should normally not use a test checking or sampling approach since, in such cases, the member would be forming an opinion on the truth of the information based on the results of such tests. Such an approach would constitute an audit unless the member was engaged to adopt such an approach and merely reports the exceptions found to the client.

Reporting on an Agreed Upon Procedures Engagement

10 The Agreed Upon Procedures Standards (paragraphs 8.1 to 8.3) state:

“8.1 Where the member simply presents the evidence collected to the user, and only reports the factual findings of agreed upon procedures, the member is not expressing any assurance on assertions.

8.2 The recipients of the member's report must form their own conclusions from the agreed upon procedures performed and the factual findings reported by the member. The member's report of factual findings should be restricted to those parties for whom the agreed upon procedures have been performed since others, unaware of the reasons for the procedures, may misinterpret the results.

8.3 The report on an agreed upon procedures engagement should describe the purpose of the engagement in sufficient detail to enable the reader to understand the nature and

the scope of the work performed. The report should set out the factual findings as a result of performing the agreed upon procedures, including sufficient details of errors and exceptions found. The report should make it clear that neither an audit nor a review has been performed and, consequently, that no assurance on assertions is given.”

11 Reports on agreed upon procedures engagements should normally contain the following:

- title;
- addressee (usually the client who engaged the member to perform the agreed upon procedures);
- identification of the specified elements, accounts or financial statements to which the agreed upon procedures were applied;
- a statement that the procedures performed were those agreed upon with the recipient or the client;
- a statement that the engagement was performed in accordance with the Agreed Upon Procedures Engagement Standards;
- identification of the purpose for which the agreed upon procedures were performed;
- identification of the nature of the specific procedures performed or a reference to the procedures agreed upon by the member and the client;
- a description of the member’s factual findings;
- a statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance on assertions is expressed;
- a statement that the member does not assume any responsibility for the adequacy or otherwise of the procedures requested to be performed;
- a statement indicating to whom the report is restricted;
- a statement (when applicable) that the report relates only to the elements, accounts, items or financial information specified and that it does not extend to the entity’s financial statements taken as a whole;
- signature;
- the members address; and
- date of the report.

Appendix 2 and 3 contain examples of reports of factual findings issued in connection with engagements to perform agreed upon procedures.

Appendix 1

Example of an Engagement Letter for an Agreed Upon Procedures Engagement

This example is provided to assist members who use an engagement letter as a record of the agreement reached with the client in accordance with the Agreed Upon Procedures Engagement Standards paragraph 10. Appropriate amendments would be made to take into account the circumstances of each engagement. In addition, other paragraphs could be added covering such matters as anticipated timing of the work, fee arrangements and the purpose of, and any restriction on, the use of the member’s report on factual findings.

Client

.....

Attention: [The addressee should be a person having the necessary authority to sign on behalf of the business.]

Dear

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide.

You have requested that we perform the following procedures and report to you on the results of our work:

[Describe the nature and extent of the work to be performed, including specific reference, where applicable, to the identity of the documents and records to be examined, individuals to be contacted and parties from whom confirmations will be obtained.]

The objective of our procedures will be to provide a report on the findings of our work substantially in the following form:

[Insert content of report of factual findings per Appendix 2.]

The work that we shall perform will be in accordance with the Standards and Guidelines for Agreed Upon Procedures Engagements issued by the New Zealand Society of Accountants. The procedures that we will perform will not constitute an audit or a review and, consequently, no assurance on any assertions contained in the financial information will be expressed.

It is understood and agreed that:

- (a) you will provide the information required for us to complete these procedures;
- (b) if our name is to be used in connection with any financial information, you will ensure that our report is attached and the limited extent of our procedures is clear when distributing the financial information to third parties; and
- (c) each page of the financial information will be conspicuously marked “unaudited”.¹

If you have any questions about the content of this letter, please contact us. If the services outlined are in accordance with your requirements and if the above terms are acceptable to you, please sign the copy of this letter in the space provided and return it to us.

¹ Members might also wish to refer to other items such as the timing of the engagement and the basis for establishing fees.

APG-1

Yours faithfully

.....

Chartered Accountant

The services and terms set out above are as agreed.

[client]

Per:

[Name and title of the addressee]

[date].....

Appendix 2

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

REPORT TO.....²

We have performed the procedures agreed with you and enumerated below with respect to the accounts payable of XYZ Company as of 31 May, 19XX, set forth in the accompanying schedules (not shown in this example). Our engagement was undertaken in accordance with the basic principles and general guidance set out in the Agreed Upon Procedures Standards and Guidelines of the New Zealand Society of Accountants. We disclaim any assumption of responsibility for the adequacy or otherwise of the procedures requested by you.

The procedures were performed solely to assist you in evaluating the validity of the accounts payable and are summarised as follows:

- 1 We obtained and checked the addition of the trial balance of accounts payable as at (date) prepared by XYZ 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 In respect of the major suppliers listed, we obtained 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 XYZ Company. For reconciliations obtained, we identified and listed outstanding invoices, credit notes and outstanding cheques, each of which was greater than \$XXX. We located and examined such invoices and credit notes subsequently received and cheques subsequently paid and we ascertained whether they should 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 XYZ Company had prepared reconciliations and that the credit notes, invoices and outstanding cheques over \$XXX were appropriately listed as reconciling items with only the following exceptions:

[Detail the exceptions.]

Because the above procedures do not constitute either an audit or a review, we do not express any assurance on the accounts payable as of 31 May, 19XX.

Our report is solely for your information and is not to be used for any other purpose. This report relates only to the accounts and items specified above and does not extend to any financial information of XYZ Company.

Signature

Date

Address

² Address to those who engaged the member.

Appendix 3

Example of a Report of Factual Findings in Connection with Accounts Payable Referring to Procedures Contained in an Engagement Letter

REPORT TO³

We have performed the procedures agreed with you in our engagement letter dated 30 June, 19XX with respect to the accounts payable of XYZ Company as of 31 May, 19XX, set forth in the accompanying schedules (not shown in this example). Our engagement was undertaken in accordance with the basic principles and general guidance set out in the Agreed Upon Procedures Standards and Guidelines of the New Zealand Society of Accountants. We disclaim any assumption of responsibility for the adequacy or otherwise of the procedures requested by you.

The procedures were performed solely to assist you in evaluating the validity of the accounts payable. Because the procedures performed do not constitute either an audit or a review, we do not express any assurance on the accounts payable as of 31 May, 19XX.

From the procedures that we have performed we report the following findings:

- 1 The addition of the trial balance of accounts payable as at 31 May, 19XX prepared by XYZ Company was correct and agreed with the balance in the related general ledger account.
- 2 The attached list of liabilities is in agreement with the trial balance of the accounts payable ledger.
- 3 The amounts contained in the attached list of accounts payable either agreed with suppliers statements as at 31 May, 19XX or, with respect to amounts which did not agree, we found XYZ Company had prepared reconciliations and that the credit notes, invoices and outstanding cheques over \$XXX were appropriately listed as reconciling items with only the following exceptions:

[Detail the exceptions.]

Our report is solely for your information and is not to be used for any other purpose. This report relates only to the accounts and items specified above and does not extend to any other financial information of XYZ Company.

Signature

Date

Address

³ Address to those who engaged the member.