

TSA based on the information submitted with the application as set forth in § 154.17. Information identified in § 154.17(b) is SSI and may be disclosed to auditors only on a need to know basis, in accordance with part 191 of this chapter. Each auditor is considered to be employed by, contracted to, or acting for an airport operator or air carrier, and is responsible for restricting disclosure of SSI in accordance with §191.5 of this chapter."

General Comments

Proposed Circular A-133 audit approach for government and non-profit applicants. As discussed below, the Proposed Rule is not consistent with the requirements of OMB Circular A-133 or is unclear. Further, Circular A-133 requires auditors to determine major programs using a risk-based approach as defined in the Circular. Under a risk-based approach, there is no guarantee that the DOT's reimbursements would be considered a major program and be tested as such. Accordingly, we encourage the DOT to discuss the audit requirements with OMB. Should it be determined that the DOT's audit objectives cannot be satisfied under an A-133 approach, we would be pleased to discuss alternative approaches, such as an agreed-upon procedures approach under the AICPA attestation standards (as has been developed for the DOT's air carrier compensation program) as further discussed below.

Section 154.23(f) states that the auditor is "not responsible for expressing an opinion on whether a particular claimed cost was incurred to comply with an eligible requirement" and that certain underlying information may be disclosed to the auditor only on a "need to know basis." These limitations and restrictions are inconsistent with Circular A-133, which requires auditors to provide an opinion on compliance for each "major program." In order to provide such an opinion, auditors must be able to determine the applicable compliance requirements that would have a direct and material effect on each major program and perform related tests. An auditor would not be able to opine on compliance on a reimbursement request without having access to and full understanding of all related compliance requirements.

We are unclear as to whether the new DOT reimbursement program will have a separate Catalog of Federal Domestic Assistance (CFDA) number assigned to it and whether it will be included as a new program in the OMB's *Compliance Supplement*. Auditors determine the direct and material compliance requirements related to federal programs by reviewing the *Compliance Supplement* and/or the underlying grant agreements or contracts. If there is to be no *Compliance Supplement* guidance and the auditor's access to the underlying documentation describing the compliance requirements is limited, the auditor will not be able to provide an opinion on compliance under Circular A-133.

Proposed audit approach for for-profit applicants. The Proposed Rule states that the amount of reimbursement request must be subject to annual audit and the amount for the period under audit must be "commented upon and certified by the auditor." The Proposed Rule allows the applicant, as an alternative, to submit a single "*certified* audit

report that specifically addresses the amount for requested for reimbursement [*emphasis added*]." We are not clear on the DOT's intent with regard to these requirements. As currently drafted, these audit "certification" requirements cannot be satisfied under AICPA professional standards. Auditors do not "certify" financial statements or financial information. Rather, professional standards provide for audits (resulting in opinion-level assurance) and attestation engagements (which include examinations, reviews, or agreed-upon procedures engagements). Without clarification, auditors will likely be confused as to type of engagement to be performed and the desired level of testing and assurances sought by DOT. This could result in differing interpretations and ultimately an inconsistency in the performance of procedures across all applicants.

Without a better understanding of the nature of the reimbursements and the DOT's assurance needs with regard to the reimbursement requests, it is difficult for us to offer an alternative recommendation. Based on similar work that the AICPA has been doing with DOT related to airlines, it may be that an agreed-upon procedures engagement under AICPA Statements on Standards for Attestation Engagements would be an alternative that could be considered. The standards for an agreed-upon procedures engagement are contained in Statement on Standards for Attestation Engagements (SSAE) No. 10, Chapter 2 (copy enclosed). Under an agreed-upon procedures engagement, the practitioner is engaged to issue a report of findings based on specific procedures performed on subject matter. Specified parties, in this situation the DOT and the airport or other entity, together with the practitioner, agree upon the procedures to be performed by the practitioner that the specified parties believe are appropriate. The specified parties assume responsibility for the sufficiency of the procedures since they best understand their own needs. Such approach could provide consistency in the performance of procedures across all entities and result in the reporting of findings of specific interest to the DOT.

Auditor's responsibilities for restricting disclosure of SSI. Section 154.23 also states that the auditor is "considered to be employed by, contracted to, or acting for an airport operator or air carrier, and is responsible for restricting disclosure of SSI in accordance with § 191.5 of this chapter." We are not clear as to what responsibility this places on the auditor and exactly what information is being restricted. We are also not clear how this requirement relates to the overall requirement in paragraph 4.38 of *Government Auditing Standards*, and a similar requirement in the Single Audit Act, that arrangements be made by auditors so that working papers will be made available to other auditors (for example, federal and state oversight officials). Further, audit firms are required to undergo various quality control reviews (for example, the AICPA Peer Review Program or Quality Control Reviews performed by federal Inspectors General). Would the limitation on disclosure in the Proposed Rule affect the information that the auditor could provide in such reviews? This should be clarified.

AICPA representatives would welcome the opportunity to meet with DOT representatives regarding their assurance needs with regard to the reimbursement requests and possible alternatives. Such a discussion would help ensure that the DOT's needs are

met and satisfy professional standards, and that there is a consistency in practice with regard to the auditor's involvement with the reimbursement requests. We would also encourage OMB participation in these discussions because of the Circular A-133 issues, as well as representation from both the General Accounting Office and the DOT Inspector General's Office because of their stated audit authority in connection with this program.

Specific Comments

Additional specific comments are presented below.

Section-by-Section Analysis

Section 154.5, paragraph 1 and paragraph 2. Paragraph 1 states that "the amount authorized to be appropriated under Section 121 is not considered AIP funds." However, paragraph 2 states that the "reimbursement provided under Section 121 of the Act would qualify as federal assistance." The Proposed Rule is unclear as to the nature of the reimbursement funds. Section 154.23 further confuses the nature of the reimbursements by stating that the reimbursement requests should be treated "as though the amount had been a federal award" and that they are "similar to federal airport grants in that they constitute reimbursement for funds." The nature of these funds should be clearly explained in the Final Rule.

Section 154.7, Heading: "How much of an eligible Applicant's Estimated Reimbursement Will Be Distributed." This heading implies that the airport operator or other entity will be estimating their reimbursement request. This is never explained in the Proposed Rule.

Section 154.9, paragraph 1. This paragraph states that "initial applications would be limited to allowable costs." The identification of unallowable costs could be quite subjective resulting in auditability issues. The paragraph also states that direct costs are those that can be demonstrated to be "unique to the new, additional, or revised security requirements." The use of the term "unique" is not clear. Consider using "attributed" or "directly related" instead. See the general comment above for our overall concerns about the proposed audit requirements.

Section 154.17, paragraph 1 (and Proposed Rule, Section 154.17). This section states that "audited financial statements are adequate support provided they show the specific costs submitted for reimbursement." We are not clear as to the meaning of this provision. In what schedule format would financial statements show these costs? Further, this could result in inappropriate reliance by the DOT on the audited financial statements. This is because in a normal financial statement audit, the auditor would not be separately expressing an opinion on the costs submitted for reimbursement. The level of audit procedures performed on the costs in a financial statement audit would depend on many factors, including materiality.

Section 154.21, paragraph 1 and 2 (and Proposed Rule, Section 154.21). This section states that the "requirement includes, but is not limited to...retaining all reports, working papers, and supporting documentation pertaining to audits or review conducted by independent auditors under the requirements of this part." In accordance with AICPA auditing standards, independent auditors retain the right to the working papers pertaining to audits and other attest services performed. Access to such working papers can be provided to the airport or other entity and other appropriate parties (including the DOT) upon request. Clarify that access to such working papers can be provided versus the airport or other entity actually obtaining and retaining such working papers. This section also requires the applicant to retain the documentation for five years. The Final Rule should clarify whether it would be five years from the fiscal year end, the claim date, or the completion of the work by the auditor. Suggested language is as follows: "You must agree to have your independent accountant retain all reports, working papers, and supporting documentation pertaining to the (*name the type of engagement ultimately decided on by DOT*) conducted by your independent accountant under the requirements of this part for a period of five years (*from what--to be completed by DOT*)." Last, DOT should consider extending the one-week timeframe at the end of paragraph 2 (perhaps to 30 days) to allow the entities and their auditors enough time to gather the information requested.

Proposed Rule

Section 154.3, Allowable Cost. This section states that "allowable cost means the direct costs incurred by an eligible applicant to comply with eligible security requirements on or after September 11, 2001." For entities on that are not on an accrual basis of accounting, how is the term "incurred" defined?

Section 154.3, Capital Cost. This section states that "entities that are on a cash accounting basis should apply accrual accounting principles to determine whether a transaction is a current year expenditure or a capital expenditure." Many governmental entities follow the modified accrual basis of accounting. Instructions for those entities should be addressed in this section. Another issue with this definition is that entities use various thresholds for their capitalization policies. For example, one entity might use a very low threshold and another might use a much higher threshold. Depending on the threshold used, some items referred to as "minor" in the definition (which means they should not be capital costs) would be capitalized by some entities. An explanation should be provided with regard to this potential conflict.

Section 154.3, Capital Cost. This section states that "indirect management costs are those costs incurred from the corporate division, and local officers and supervisors that were reasonable for implementing the new, additional, or revised security requirements, but who also continued to have their normal managerial or supervisory requirements." We are not clear on the DOT's intent with regard to the discussion of supervisory personnel and are concerned that it is open to differing interpretations. For example,

what if the supervisor in the example provided in this section received additional compensation for the incremental service time? Would that be considered a direct cost?

Section 154.5(b), Capital Cost. This section states that "the reimbursement under this part to an airport is Federal assistance within the meaning of 49 USC 47133, and Federal financial assistance within the meaning of the FAA Policy and Procedures Concerning the Use of Airport Revenue published on February 16, 1999...." Neither this section nor the similar discussion in the Section-by-Section Analysis is clear regarding the applicability of airport revenue rules and related revenue diversion issues. We are aware that this is an important concept to DOT and believe that additional discussion is needed to ensure that entities and auditors are fully informed.

Section 154.3, Costs Otherwise Recovered. While we understand this concept, it may be difficult to audit (for purposes of providing an opinion). What audit evidence would an auditor look for? See the general comments above regarding our overall concerns with the proposed audit approach.

Section 154.3, Direct Costs. We are concerned that it will be difficult for auditors to identify and audit direct costs as they are defined. Based on the schedule in Appendix A, it appears that the amount of the reimbursement will not list direct costs incurred, but rather the differences between actual and budgeted amounts for certain expense line items. Further, we are unclear about the meaning of latter part of the definition that states that costs "may not be allocable from or to other cost pools or cost objectives." A more detailed explanation or example would help here.

Section 154.9(c). This section indicates that both unallowable costs and lost revenue are not eligible for reimbursement. Lost revenue should not be broken out separately here as it is already included in the definition of Unallowable Costs in Section 154.3.

Section 154.23, paragraph 3. This paragraph states that "...requests for reimbursements must be treated as though the amount had been a Federal award and audited in accordance with OMB Circular A-133." Further, it states that "...the amount must be subject to annual audit and the amount for the period under audit must be commented upon and certified by the auditor." See the general comments above for our concerns with these proposed audit requirements.

Appendix A. For those entities that the Proposed Rule would have fall under Circular A-133, we are not clear how this schedule would relate to the Schedule of Expenditures of Federal Awards. Also, many entities change their budgets during the year. Does the DOT want the entities to include their original budget amount in the first column, or would it be more appropriate to include the most recent budgeted amounts prior to September 11? This should be clarified. We may have other comments on this Appendix once we have a better understanding of the DOT's assurance needs with regard to the schedule.

Paperwork Reduction Act

Burden Estimate. The average burden estimate of 4 hours per application seems on the low side. Further, the rate per hour being used in the calculation (approximately \$28.00/hour) seems low as well. We would be pleased to review these revised estimates based on the final audit approach taken.

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The AICPA is the national professional association which represents more than 330,000 CPAs in public practice, industry, government, and education. The AICPA, through the efforts of volunteer members, is devoted to developing standards for audits and other services provided by CPAs, providing educational guidance materials to its members, administering the uniform CPA examination, and monitoring and enforcing compliance with the profession's technical and ethical standards. All of these activities are undertaken with the objective of assisting our members in their efforts to serve the public interest.

Sincerely,



Mary M. Foelster, CPA
Senior Manager
AICPA Professional Standards and Services - Washington

Enclosure

cc: AICPA Airport Security Reimbursement Procedures Ad Hoc Task Force
Terry Ramsey, OMB
Linda Calbom, GAO

ENCLOSURE

AT Section 201

Agreed-Upon Procedures Engagements

Source: SSAE No. 10.

Effective when the subject matter or assertion is as of or for a period ending on or after June 1, 2001. Earlier application is permitted.

Introduction and Applicability

Introduction and Applicability

.01

.01 This section sets forth attestation standards and provides guidance to a practitioner concerning performance and reporting in all agreed-upon procedures engagements, except as noted in [paragraph .02](#). A practitioner also should refer to the following sections of this Statement on Standards for Attestation Engagements (SSAE), which provide additional guidance for certain types of agreed-upon procedures engagements:

- a. [Section 301](#), *Financial Forecasts and Projections*
- b. [Section 601](#), *Compliance Attestation*

.02

.02 This section does not apply to the following: [fn 1](#)

- a. Situations in which an auditor reports on specified compliance requirements based solely on an audit of financial statements, as addressed in AU section 623, *Special Reports*, [paragraphs .19–.21](#)
- b. Engagements for which the objective is to report in accordance with [AU section 801](#), *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*, unless the terms of the engagement specify that the engagement be performed pursuant to SSAEs
- c. Circumstances covered by AU section 324, *Service Organizations*, [paragraph .58](#), 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 section applies when the service auditor provides a separate report on the performance of agreed-upon procedures in an attestation engagement.)
- d. Engagements covered by [AU section 634](#), *Letters for Underwriters and Certain Other Requesting Parties*
- e. Certain professional services that would not be considered as falling under this section as described in section 101, *Attest Engagements*, [paragraph .04](#).

Agreed-Upon Procedures Engagements

Agreed-Upon Procedures Engagements

.03

.03 An agreed-upon procedures engagement is one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter. The client engages the practitioner to assist specified parties in evaluating subject matter or an assertion as a result of a need or needs of the specified parties. [fn 2](#) Because the specified parties require that findings be independently derived, the services of a practitioner are obtained to perform procedures and report his or her findings. The specified parties and the practitioner agree upon the procedures to be performed by the practitioner that the specified parties believe are appropriate. Because the needs of the specified parties may vary widely, the nature, timing, and extent of the agreed-upon procedures may vary as well; consequently, the specified parties assume responsibility for the sufficiency of the procedures since they best understand their own needs. In an engagement performed under this section, the practitioner does not perform an examination or a review, as discussed in [section 101](#), and does not provide an opinion or negative assurance. [fn 3](#) ([See paragraph .24.](#)) Instead, the practitioner's report on agreed-upon procedures should be in the form of procedures and findings. ([See paragraph .31.](#))

.04

.04 As a consequence of the role of the specified parties in agreeing upon the procedures performed or to be performed, a practitioner's report on such engagements should clearly indicate that its use is restricted to those specified parties. [fn 4](#) Those specified parties, including the client, are hereinafter referred to as *specified parties*.

Standards

Standards

.05

.05 The general, fieldwork, and reporting standards for attestation engagements as set forth in [section 101](#), together with interpretive guidance regarding their application as addressed throughout this section, should be followed by the practitioner in performing and reporting on agreed-upon procedures engagements.

Conditions for Engagement Performance

Conditions for Engagement Performance

.06

.06 The practitioner may perform an agreed-upon procedures attest engagement provided that-

- a. The practitioner is independent.
- b. One of the following conditions is met.

(1) The party wishing to engage the practitioner is responsible for the subject matter, or has a reasonable basis for providing a written assertion about the subject matter when the nature of the subject matter is such that a responsible party does not otherwise exist.

(2) The party wishing to engage the practitioner is not responsible for the subject matter but is able to provide the practitioner, or have a third party who is responsible for the subject matter provide the practitioner with evidence of the third party's responsibility for the subject matter.

c. The practitioner and the specified parties agree upon the procedures performed or to be performed by the practitioner.

d. The specified parties take responsibility for the sufficiency of the agreed-upon procedures for their purposes.

e. The specific subject matter to which the procedures are to be applied is subject to reasonably consistent measurement.

f. Criteria to be used in the determination of findings are agreed upon between the practitioner and the specified parties.

g. The procedures to be applied to the specific subject matter are expected to result in reasonably consistent findings using the criteria.

h. Evidential matter related to the specific subject matter to which the procedures are applied is expected to exist to provide a reasonable basis for expressing the findings in the practitioner's report.

i. Where applicable, the practitioner and the specified parties agree on any materiality limits for reporting purposes. ([See paragraph .25.](#))

j. Use of the report is restricted to the specified parties.

k. For agreed-upon procedures engagements on prospective financial information, the prospective financial statements include a summary of significant assumptions. ([See section 301.52.](#))

Agreement on and Sufficiency of Procedures

Agreement on and Sufficiency of Procedures

.07

.07 To satisfy the requirements that the practitioner and the specified parties agree upon the procedures performed or to be performed and that the specified parties take responsibility for the sufficiency of the agreed-upon procedures for their purposes, ordinarily the practitioner should communicate directly with and obtain affirmative acknowledgment from each of the specified parties. For example, this may be accomplished by meeting with the specified parties or by distributing a draft of the anticipated report or a copy of an engagement letter to the specified parties and obtaining their agreement. If the practitioner is not able to communicate directly with all of the specified parties, the practitioner may satisfy these requirements by applying any one or more of the following or similar procedures.

- Compare the procedures to be applied to written requirements of the specified parties.
- Discuss the procedures to be applied with appropriate representatives of the specified parties involved.

- Review relevant contracts with or correspondence from the specified parties.

The practitioner should not report on an engagement when specified parties do not agree upon the procedures performed or to be performed and do not take responsibility for the sufficiency of the procedures for their purposes. (See [paragraph .36](#) for guidance on satisfying these requirements when the practitioner is requested to add other parties as specified parties after the date of completion of the agreed-upon procedures.)

Subject Matter and Related Assertions

Subject Matter and Related Assertions

.08

.08 The subject matter of an agreed-upon procedures engagement may take many different forms and may be at a point in time or covering a period of time. In an agreed-upon procedures engagement, it is the specific subject matter to which the agreed-upon procedures are to be applied using the criteria selected. Even though the procedures are agreed upon between the practitioner and the specified parties, the subject matter and the criteria must meet the conditions set forth in the third general standard. (See [section 101.23](#) and [.24](#).) The criteria against which the specific subject matter needs to be measured may be recited within the procedures enumerated or referred to in the practitioner's report.

.09

.09 An assertion is any declaration or set of declarations about whether the subject matter is based on or in conformity with the criteria selected. A written assertion is generally not required in an agreed-upon procedures engagement unless specifically required by another attest standard (for example, see [section 601.11](#)). If, however, the practitioner requests the responsible party to provide an assertion, the assertion may be presented in a representation letter or another written communication from the responsible party, such as in a statement, narrative description, or schedule appropriately identifying what is being presented and the point in time or the period of time covered.

Establishing an Understanding With the Client

Establishing an Understanding With the Client

.10

.10 The practitioner should establish an understanding with the client regarding the services to be performed. When the practitioner documents the understanding through a written communication with the client (an *engagement letter*), such communication should be addressed to the client, and in some circumstances also to all specified parties. Matters that might be included in such an understanding include the following:

- The nature of the engagement

- Identification of the subject matter (or the assertion related thereto), the responsible party, and the criteria to be used
- Identification of specified parties ([See paragraph .36.](#))
- Specified parties' acknowledgment of their responsibility for the sufficiency of the procedures
- Responsibilities of the practitioner ([See paragraphs .12 to .14 and .40.](#))
- Reference to attestation standards established by the American Institute of Certified Public Accountants (AICPA)
- Agreement on procedures by enumerating (or referring to) the procedures ([See paragraphs .15 to .18.](#))
- Disclaimers expected to be included in the practitioner's report
- Use restrictions
- Assistance to be provided to the practitioner ([See paragraphs .22 and .23.](#))
- Involvement of a specialist ([See paragraphs .19 to .21.](#))
- Agreed-upon materiality limits ([See paragraph .25.](#))

Nature, Timing, and Extent of Procedures

Nature, Timing, and Extent of Procedures

Responsibility of the Specified Parties

Responsibility of the Specified Parties

.11

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

Practitioner's Responsibility

Practitioner's Responsibility

.12

.12 The responsibility of the practitioner is to carry out the procedures and report the findings in accordance with the general, fieldwork, and reporting standards as discussed and interpreted in this section. The practitioner assumes the risk that misapplication of the procedures may result in inappropriate findings being reported. Furthermore, the practitioner assumes the risk that appropriate findings may not be reported or may be reported inaccurately. The practitioner's risks can be reduced through adequate planning and supervision and due professional care in performing the procedures, determining the findings, and preparing the report.

.13

.13 The practitioner should have adequate knowledge in the specific subject matter to which the agreed-upon procedures are to be applied. He or she may obtain such knowledge through formal or continuing education, practical experience, or consultation with others. [fn 5](#)

.14

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

Procedures to Be Performed

Procedures to Be Performed

.15

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

.16

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

.17

.17 Examples of appropriate procedures include the following:

- Execution of a sampling application after agreeing on relevant parameters
- Inspection of specified documents evidencing certain types of transactions or detailed attributes thereof
- Confirmation of specific information with third parties
- Comparison of documents, schedules, or analyses with certain specified attributes
- Performance of specific procedures on work performed by others (including the work of internal auditors-see [paragraphs .22](#) and [.23](#))
- Performance of mathematical computations

.18

.18 Examples of inappropriate procedures include the following:

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

Involvement of a Specialist

Involvement of a Specialist [fn 6](#)

.19

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

- An attorney might provide assistance concerning the interpretation of legal terminology involving laws, regulations, rules, contracts, or grants.
- A medical specialist might provide assistance in understanding the characteristics of diagnosis codes documented in patient medical records.
- An environmental engineer might 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 might provide assistance in distinguishing between varying physical characteristics of a generic minerals group related to information to which the agreed-upon procedures are applied.

.20

.20 The practitioner and the specified parties should explicitly agree to the involvement of the specialist in assisting a practitioner in the performance of an agreed-upon procedures engagement. This agreement may be reached when obtaining agreement on the procedures performed or to be performed and acknowledgment of responsibility for

the sufficiency of the procedures, as discussed in [paragraph .07](#). The practitioner's report should describe the nature of the assistance provided by the specialist.

.21

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

Internal Auditors and Other Personnel

Internal Auditors and Other Personnel

.22

.22 The agreed-upon procedures to be enumerated or referred to in the practitioner's report are to be performed entirely by the practitioner except as discussed in [paragraphs .19](#) to [.21](#). [fn 7](#) However, internal auditors or other personnel may prepare schedules and accumulate data or provide other information for the practitioner's use in performing the agreed-upon procedures. Also, internal auditors may perform and report separately on procedures that they have carried out. Such procedures may be similar to those that a practitioner may perform under this section.

.23

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

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

However, it is inappropriate for the practitioner to-

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

Findings

Findings

.24

.24 A practitioner should present the results of applying agreed-upon procedures to specific subject matter in the form of findings. The practitioner should not provide negative assurance about whether the subject matter or the assertion is fairly stated based on the criteria. For example, the practitioner should not include a statement in his or her report that "nothing came to my attention that caused me to believe that the [*identify subject matter*] is not presented based on [or the assertion is not fairly stated based on] [*identify criteria*]."

.25

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

.26

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

<i>Procedures Agreed Upon</i>	<i>Appropriate Description of Findings</i>	<i>Inappropriate Description of Findings</i>
Inspect the shipment dates for a sample (agreed-upon) of specified shipping documents, and determine whether any such dates were subsequent to December 31, 20XX.	No shipment dates shown on the sample of shipping documents were subsequent to December 31, 20XX.	Nothing came to my attention as a result of applying that procedure.
Calculate the number of blocks of streets paved during the year ended September 30, 20XX, shown on contractors' certificates of project completion; compare the resultant number to the number in an identified chart of performance statistics.	The number of blocks of streets paved in the chart of performance statistics was Y blocks more than the number calculated from the contractors' certificates of project completion.	The number of blocks of streets paved approximated the number of blocks included in the chart of performance statistics.
Calculate the rate of return on a specified investment (according to an agreed-upon formula) and verify that the resultant percentage agrees to the percentage in an identified schedule.	No exceptions were found as a result of applying the procedure.	The resultant percentage approximated the predetermined percentage in the identified schedule.
Inspect the quality standards	All classification codes	All classification codes

classification codes in identified performance test documents for products produced during a specified period; compare such codes to those shown in an identified computer printout.

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 invoice dates precede the date indicated on the schedule by more than ninety days.

inspected in the identified documents were the same as those shown in the computer printout except for the following:

[List all exceptions.]

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.

appeared to comply with such performance documents.

Nothing came to my attention as a result of applying the procedure.

The outstanding invoice amounts agreed within approximation of the amounts shown on the schedule in the "over ninety days" column, and nothing came to our attention that the dates shown on such invoices preceded the date indicated on the schedule by more than ninety days.

Working Papers

Working Papers

.27

.27 The practitioner should prepare and maintain working papers in connection with an agreed-upon procedures engagement under the attestation standards; such working papers should be appropriate to the circumstances and the practitioner's needs on the engagement to which they apply. [fn 8](#) Although the quantity, type, and content of working papers vary with the circumstances, ordinarily they should indicate that-

a. The work was adequately planned and supervised.

b. Evidential matter was obtained to provide a reasonable basis for the finding or findings expressed in the practitioner's report.

.28

.28 Working papers are the property of the practitioner, and some states have statutes or regulations that designate the practitioner as the owner of the working papers. The practitioner's rights of ownership, however, are subject to ethical limitations relating to confidentiality. [fn 9](#)

.29

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

.30

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

Reporting

Reporting

Required Elements

Required Elements

.31

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

- a. A title that includes the word *independent*
- b. Identification of the specified parties ([See paragraph .36.](#))
- c. Identification of the subject matter [fn 10](#) (or the written assertion related thereto) and the character of the engagement
- d. Identification of the responsible party
- e. A statement that the subject matter is the responsibility of the responsible party
- f. A statement that the procedures performed were those agreed to by the specified parties identified in the report
- g. A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the AICPA
- h. A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures
- i. A list of the procedures performed (or reference thereto) and related findings (The practitioner should not provide negative assurance-see [paragraph .24.](#))
- j. Where applicable, a description of any agreed-upon materiality limits ([See paragraph .25.](#))
- k. A statement that the practitioner was not engaged to and did not conduct an examination [fn 11](#), [fn 12](#) of the subject matter, the objective of which would be the

expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported [fn 13](#)

l. A statement of restrictions on the use of the report because it is intended to be used solely by the specified parties [fn 14](#)

m. Where applicable, reservations or restrictions concerning procedures or findings as discussed in [paragraphs .33, .35, .39, and .40](#)

n. For an agreed-upon procedures engagement on prospective financial information, all items included in [section 301.55](#)

o. Where applicable, a description of the nature of the assistance provided by a specialist as discussed in [paragraphs .19 through .21](#)

p. The manual or printed signature of the practitioner's firm

q. The date of the report

Illustrative Report

Illustrative Report

.32

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

Independent Accountant's Report

on Applying Agreed-Upon Procedures

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

We have performed the procedures enumerated below, which were agreed to by the audit committees and managements of ABC Inc. and XYZ Fund, solely to assist you in evaluating the accompanying Statement of Investment Performance Statistics of XYZ Fund (prepared in accordance with the criteria specified therein) for the year ended December 31, 20X1. XYZ Fund's management is responsible for the statement of investment performance statistics. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

[Include paragraphs to enumerate procedures and findings.]

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Statement of Investment Performance Statistics of XYZ Fund. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the audit committees and managements of ABC Inc. and XYZ Fund, [fn 15](#) and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

Explanatory Language

Explanatory Language

.33

.33 The practitioner also may include explanatory language about matters such as the following:

- Disclosure of stipulated facts, assumptions, or interpretations (including the source thereof) used in the application of agreed-upon procedures (For example, see [section 601.26.](#))
- Description of the condition of records, controls, or data to which the procedures were applied
- Explanation that the practitioner has no responsibility to update his or her report
- Explanation of sampling risk

Dating of Report

Dating of Report

.34

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

Restrictions on the Performance of Procedures

Restrictions on the Performance of Procedures

.35

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

Adding Specified Parties (Nonparticipant Parties)

Adding Specified Parties (Nonparticipant Parties)

.36

.36 Subsequent to the completion of the agreed-upon procedures engagement, a practitioner may be requested to consider the addition of another party as a specified

party (*a nonparticipant party*). The practitioner may agree to add a nonparticipant party as a specified party, based on consideration of such factors as the identity of the nonparticipant party and the intended use of the report. [fn 16](#) If the practitioner does agree to add the nonparticipant party, he or she should obtain affirmative acknowledgment, normally in writing, from the nonparticipant party agreeing to the procedures performed and of its taking responsibility for the sufficiency of the procedures. If the nonparticipant party is added after the practitioner has issued his or her report, the report may be reissued or the practitioner may provide other written acknowledgment that the nonparticipant party has been added as a specified party. If the report is reissued, the report date should not be changed. If the practitioner provides written acknowledgment that the nonparticipant party has been added as a specified party, such written acknowledgment ordinarily should state that no procedures have been performed subsequent to the date of the report.

Written Representations

Written Representations

.37

.37 A practitioner may find a representation letter to be a useful and practical means of obtaining representations from the responsible party. The need for such a letter may depend on the nature of the engagement and the specified parties. For example, [section 601.68](#) requires a practitioner to obtain written representations from the responsible party in an agreed-upon procedures engagement related to compliance with specified requirements.

.38

.38 Examples of matters that might appear in a representation letter from the responsible party include the following:

- a. A statement acknowledging responsibility for the subject matter and, when applicable, the assertion
- b. A statement acknowledging responsibility for selecting the criteria and for determining that such criteria are appropriate for their purposes
- c. The assertion about the subject matter based on the criteria selected
- d. A statement that all known matters contradicting the subject matter or the assertion and any communication from regulatory agencies affecting the subject matter or the assertion has been disclosed to the practitioner
- e. Availability of all records relevant to the subject matter and the agreed-upon procedures
- f. Other matters as the practitioner deems appropriate

.39

.39 The responsible party's refusal to furnish written representations determined by the practitioner to be appropriate for the engagement constitutes a limitation on the

performance of the engagement. In such circumstances, the practitioner should do one of the following.

- a. Disclose in his or her report the inability to obtain representations from the responsible party.
- b. Withdraw from the engagement. [fn 17](#)
- c. Change the engagement to another form of engagement.

Knowledge of Matters Outside Agreed-Upon Procedures

Knowledge of Matters Outside Agreed-Upon Procedures

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.40 The practitioner need not perform procedures beyond the agreed-upon procedures. However, in connection with the application of agreed-upon procedures, if matters come to the practitioner's attention by other means that significantly contradict the subject matter (or written assertion related thereto) referred to in the practitioner's report, the practitioner should include this matter in his or her report. [fn 18](#) For example, if, during the course of applying agreed-upon procedures regarding an entity's internal control, the practitioner becomes aware of a material weakness by means other than performance of the agreed-upon procedure, the practitioner should include this matter in his or her report.

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

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

.41

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

.42

.42 Before a practitioner who was engaged to perform another form of engagement agrees to change the engagement to an agreed-upon procedures engagement, he or she should consider the following:

- a. The possibility that certain procedures performed as part of another type of engagement are not appropriate for inclusion in an agreed-upon procedures engagement
- b. The reason given for the request, particularly the implications of a restriction on the scope of the original engagement or the matters to be reported
- c. The additional effort required to complete the original engagement

d. If applicable, the reasons for changing from a general-use report to a restricted-use report

.43

.43 If the specified parties acknowledge agreement to the procedures performed or to be performed and assume responsibility for the sufficiency of the procedures to be included in the agreed-upon procedures engagement, either of the following would be considered a reasonable basis for requesting a change in the engagement-

a. A change in circumstances that requires another form of engagement

b. A misunderstanding concerning the nature of the original engagement or the available alternatives

.44

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

.45

.45 If the practitioner concludes, based on his or her professional judgment, that there is reasonable justification to change the engagement, and provided he or she complies with the standards applicable to agreed-upon procedures engagements, the practitioner should issue an appropriate agreed-upon procedures report. The report should not include reference to either the original engagement or performance limitations that resulted in the changed engagement. ([See paragraph .40.](#))

Combined Reports Covering Both Restricted-Use and General-Use Subject Matter or Presentations

Combined Reports Covering Both Restricted-Use and General-Use Subject Matter or Presentations

.46

.46 When a practitioner performs services pursuant to an engagement to apply agreed-upon procedures to specific subject matter as part of or in addition to another form of service, this section applies only to those services described herein; other Standards would apply to the other services. Other services may include an audit, review, or compilation of a financial statement, another attest service performed pursuant to the SSAEs, or a nonattest service. [fn 19](#) Reports on applying agreed-upon procedures to specific subject matter may be 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. See [section 101.82](#) and .83, regarding restricting the use of the combined report.

Effective Date

Effective Date

.47

.47 This section is effective when the subject matter or assertion is as of or for a period ending on or after June 1, 2001. Early application is permitted.

Appendix-Additional Illustrative Reports

Appendix

Additional Illustrative Reports

Additional Illustrative Reports

.48

.48

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

1. Report in Connection With a Proposed Acquisition

Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the Board of Directors and Management of X Company:

We have performed the procedures enumerated below, which were agreed to by the Board of Directors and Management of X Company, solely to assist you in connection with the proposed acquisition of Y Company as of December 31, 20XX. Y Company is responsible for its cash and accounts receivable records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this 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.

The procedures and the associated findings are as follows:

Cash

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

<i>Bank</i>	<i>General Ledger Account Balances as of December 31, 20XX</i>
ABC National Bank	\$5,000
DEF State Bank	3,776
XYZ Trust Company regular account	86,912
XYZ Trust Company payroll account	<u>5,000</u>

\$110,688

We found no exceptions as a result of the procedures.

Accounts Receivable

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

We found no difference.

3. We compared the individual customer account balances shown in the aged trial balance of accounts receivable (Exhibit A) as of December 31, 19XX, to the balances shown in the accounts receivable subsidiary ledger.

We found no exceptions as a result of the comparisons.

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

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

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

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

<i>Aging Categories</i>	<i>Accounts Receivable December 31, 20XX</i>		
	<i>Customer Account Balances</i>	<i>Confirmations Requested</i>	<i>Confirmations Received</i>
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>	48,000	8,000
	<u>\$300,000</u>	\$172,000	\$102,000

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on cash and accounts receivable. 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 information and use of the board of directors and management of X Company and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

2. Report in Connection With Claims of Creditors

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Trustee of XYZ Company:

We have performed the procedures described below, which were agreed to by the Trustee of XYZ Company, with respect to the claims of creditors solely to assist you in determining the validity of claims of XYZ Company as of May 31, 20XX, as set forth in the accompanying Schedule A. XYZ Company is responsible for maintaining records of claims submitted by creditors of XYZ Company. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the party specified in this 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.

The procedures and associated findings are as follows:

1. Compare the total of the trial balance of accounts payable at May 31, 20XX, prepared by XYZ Company, to the balance in the related general ledger account.

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

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

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

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

No exceptions were found as a result of these comparisons.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the claims of creditors set forth in the accompanying Schedule A. 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 information and use of the Trustee of XYZ Company and is not intended to be and should not be used by anyone other than this specified party.

[Signature]

[Date]