

# GUIDANCE NOTE ON ENGAGEMENTS TO PERFORM AGREED - UPON PROCEDURES REGARDING FINANCIAL INFORMATION\*

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## **Agreed-Upon Procedures**

### **Foreword**

*In the present day globalised environment, the significance of functions performed by chartered accountants is acquiring new dimensions. Today, more and more numbers of third parties wish to obtain assurance in respect of specific aspects of an entity from the auditor. In this context, I am happy to note that the Auditing Practices Committee has developed a Guidance Note on Engagements to Perform Agreed – upon Procedures Regarding Financial Information. I am confident that the Guidance Note would provide guidance to members at large both in respect of the manner of carrying out actual work and the manner of reporting. Such a Guidance Note would also enable the users at large to appreciate the framework in which auditor shall discharge his reporting responsibilities. I hope members would find it useful.*

*I have great pleasure in acknowledging the efforts and contribution made by Mr. S. Gopalakrishnan, Chairman and Mr. K.S. Vikamsey, Vice-Chairman, Auditing Practices Committee and all members of the Auditing Practices Committee and Council. A special mention needs to be made of the significant contribution made by Mr. Vijay Kapur, Secretary to the said Committee.*

New Delhi  
August 13, 2001

**N. D. Gupta**  
President

## **Handbook of Auditing Pronouncements-II**

### **Preface**

*In the present scenario of keen competition and globalisation, various entities undergo structuring and restructuring of their operations. Most of these entities engage the firm of accountants for performing agreed-upon procedures regarding financial and non-financial information and reporting thereon.*

*The purpose of this Guidance Note is to provide guidance on the auditor's professional responsibilities when an engagement to perform agreed-upon procedures regarding financial information is undertaken and on the form and content of the report that the auditor issues in connection with such an engagement.*

*The members are requested to keep in mind that this Guidance Note would also be relevant for engagement regarding non-financial information for which the auditor needs to have adequate knowledge of the subject matter in question and his findings are based on reasonable criteria. Please note that the statements on Standard Auditing Practices (SAP) would be applicable in performance of the agreed-upon procedures of the auditor to the extent relevant. I am sure, the members will find this useful in discharging their obligations.*

*I take this opportunity to express my sincere thanks to Shri Kamlesh Vikamsey, Vice-Chairman and the members of Auditing Practices Committee for their valuable contribution in the preparation of the Guidance Note.*

*I would like to record my sincere appreciation to the Convenor of the Study Group who assisted the Committee in preparation of this Guidance Note. I also wish to thank Mr. Vijay Kapur, Secretary, Auditing Practices Committee and his team whose efforts made it possible for the Committee to bring out this Guidance Note in good time.*

Hyderabad  
August 13, 2001

**S. Gopalakrishnan**  
Chairman  
Auditing Practices Committee

## **Introduction**

1. The purpose of this Guidance Note is to provide guidance on the auditor's<sup>1</sup> professional responsibilities when an engagement to perform agreed-upon procedures regarding financial information is undertaken and on the form and content of the report that the auditor issues in connection with such an engagement.
2. This Guidance Note is basically directed towards engagements regarding financial information. However, this Guidance Note would be relevant for engagements regarding non-financial information, provided the auditor has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base findings. The standards set out in Statements on Standard Auditing Practices (SAPs)<sup>2</sup> would be applicable in performance of agreed-upon procedures by the auditor, to the extent relevant.
3. An engagement to perform agreed-upon procedures may involve performance of certain procedures concerning individual items of financial data (for example, accounts payable, accounts receivable, purchases from related parties and sales and profits of a segment of an entity), a financial statement (for example, a balance sheet) or even a complete set of financial statements.

## **Objective of an Agreed-upon Procedures Engagement**

4. For the auditor, the objective of an agreed-upon procedures engagement is to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.
5. As the auditor provides simply a report on the factual findings of agreed-upon procedures, no assurance is expressed. Instead, users of the report assess for themselves the procedures followed and findings reported by the auditor and draw their own inferences/conclusions from the work done by the auditor.

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<sup>1</sup> The term 'auditor' is used throughout this Guidance Note, when describing the services involving performance of agreed-upon procedures. Such reference is not intended to imply that a person performing these services need necessarily be the auditor of the entity's financial statements.

<sup>2</sup> Now known as Auditing and Assurance Standards (AASs).

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6. The report is restricted only to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results. However, it is possible in certain circumstances that the report of the engagement may not be restricted only to those parties that have agreed to the procedures to be performed, but made available to a wider range of entities or people, e.g., in case of a government organisation.

### **General Principles of an Agreed-upon Procedures Engagement**

7. As in the case of other professional assignments, for engagements to perform agreed-upon procedures also, the auditor should comply with the “Code of Conduct”, issued by the Institute of Chartered Accountants of India.

8. The auditor should conduct an agreed-upon procedures engagement in accordance with this Guidance Note and the terms of the engagement.

### **Defining the Terms of the Engagement**

9. The auditor should ensure clarity of understanding with representatives of the entity and, ordinarily, other specified parties who will receive copies of the report of factual findings, regarding the agreed procedures and the conditions of the engagement. Matters to be agreed include 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 will be expressed.
- ◆ Stated purpose of the engagement.
- ◆ Identification of the financial information to which the agreed-upon procedures will be applied.
- ◆ Nature, timing and extent of the specific procedures to be applied.
- ◆ Limitations on distribution of the report of factual findings. When such limitation is in conflict with the legal requirements, if any, the auditor should not accept the engagement.

10. In certain circumstances, when the procedures have been agreed to between the regulator, industry representatives and representatives of the accounting profession, the auditor may not be able to discuss the procedures

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with all the parties who will receive the report. In such instances, the auditor may consider, for example, discussing the procedures to be applied with appropriate representatives of the parties involved, reviewing relevant correspondence from such parties.

11. It is in the interests of both the client and the auditor that the auditor sends an engagement letter documenting the key terms of the appointment. An engagement letter confirms the auditor's acceptance of the appointment and helps to avoid misunderstanding regarding such matters as the objectives and scope of the engagement, and the extent of the auditor's responsibilities.

12. Matters that should be contained in the engagement letter include:

- ◆ A listing of the procedures to be performed as agreed upon between the parties.
- ◆ A statement that the distribution of the report of factual findings would be restricted to the specified parties who have agreed to the procedures to be performed.

An example of an engagement letter appears in Appendix I to this Guidance Note.

### **Planning**

13. The auditor should plan his work so that an effective engagement will be performed.

### **Documentation**

14. The auditor should document matters which are important in providing evidence to support the report of factual findings and evidence that the engagement was carried out in accordance with this Guidance Note and the terms of the engagement.

### **Procedures and Evidence**

15. The auditor should carry out the procedures agreed upon and use the evidence obtained as the basis for the report of factual findings.

16. The procedures to be applied in an engagement to perform agreed-upon procedures may include:

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- ◆ Inquiry and analysis
- ◆ Recomputation, comparison and other clerical accuracy checks
- ◆ Observation
- ◆ Inspection
- ◆ Obtaining confirmations

Appendix II to this Guidance Note is an example of a report which contains an illustrative list of procedures which may be applied as a part of a typical agreed-upon procedures engagement.

### **Reporting**

17. The report on an agreed-upon procedures engagement needs to describe the purpose and the agreed-upon procedures of the engagement details in a comprehensive manner to enable the reader to understand the nature and the extent of the work performed.

18. The report of factual findings should contain:

- (a) Title;
- (b) Addressee (normally, the client who engaged the auditor to perform the agreed-upon procedures);
- (c) Identification of specific financial or non-financial information to which the agreed-upon procedures have been applied;
- (d) A statement that the procedures performed were those as agreed upon;
- (e) A statement that the engagement was performed in accordance with this Guidance Note and in compliance with any statute, or practices, as may be applicable;
- (f) Stating the purpose for which the agreed-upon procedures were applied;
- (g) Listing of the specific procedures carried out;
- (h) Description of the auditor's factual findings including sufficient details of errors and exceptions found;
- (i) A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed;

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- (j) A statement that the report is restricted for access to only those parties that have agreed to the procedures to be performed;
- (k) A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and does not extend to the entity's financial statements taken as a whole;
- (l) Date of the report;
- (m) Auditor's address; and
- (n) Auditor's signature.

Appendix II to this Guidance Note contains an example of a report of factual findings in connection with an engagement to perform agreed-upon procedures regarding financial information.



## **Appendix I**

### **Example of an Engagement Letter for an Agreed-upon Procedures Engagement**

*The following letter is intended for use as a guide in conjunction with paragraph 12 of this Guidance Note and is not intended to be a standard letter. The engagement letter will vary according to individual requirements and circumstances of each work undertaken.*

Date

To

The Board of Directors (or other appropriate representatives of the client who engaged the auditor).

This is in reference to your letter dated \_\_\_\_\_, appointing us to perform agreed-upon procedures in respect of \_\_\_\_\_ (*identify the items, e.g., accounts receivable, sales and profits of a segment of an entity*).

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. Our engagement will be conducted in accordance with the Guidance Note on Engagements to Perform Agreed-upon Procedures regarding Financial Information, issued by the Institute of Chartered Accountants of India and will indicate so in our report.

We have agreed to perform the following procedures and report to you the factual findings resulting from our work:

*(describe the nature, timing and extent of the procedures to be performed, including specific reference, where applicable, to the identity of documents and records to be perused, individuals to be contacted and parties from whom confirmations to be obtained.)*

The procedures that we will perform are solely to assist you in \_\_\_\_\_ (*state the purpose*). Our report is for this purpose and is solely for your information, and/or for use by \_\_\_\_\_ (*in case the terms of engagement so require*).

The procedures that we will perform will not constitute an audit or a review and, consequently, no opinion will be expressed.

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Please sign and return the attached copy of this letter as a token of acceptance to indicate that it is in accordance with your understanding of the terms of the engagement including the specific procedures, which we have agreed, will be performed.

For ABC & Co.

Signature  
(Name of the partner)  
Partner  
Chartered Accountants  
Date  
Address

Acknowledged on behalf of  
XYZ Company by  
(Signed)

.....

Name and Designation  
Date

## **Appendix II**

### **Example of a Report of Factual Findings in Connection with Accounts Receivable**

**(CONFIDENTIAL)**

#### **Report in Connection with Agreed upon Procedures Assignment Related to Accounts Receivable**

To,

The Board of Directors (or other appropriate representatives of the client who engaged the auditor).

We have performed the procedures agreed with you and enumerated below with respect to the accounts receivable of XYZ Company as on \_\_\_\_\_ (date), set forth in the accompanying schedule. Our engagement was undertaken in accordance with the Guidance Note on Engagements to Perform Agreed-upon Procedures regarding Financial Information, issued by the Institute of Chartered Accountants of India. The procedures were performed solely to assist you in evaluating the validity of the accounts receivable and are summarised as follows:

1. We obtained and checked the addition of the trial balance of accounts receivable 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 of major receivable parties and the amounts outstanding at \_\_\_\_\_ (date) to the related names and amounts in the trial balance.
3. We obtained receivables parties' statements or confirmations from receivable parties to confirm balances outstanding at \_\_\_\_\_ (date).
4. We compared such statements or confirmations to the amounts referred to in 2 above. For amounts which did not agree, we obtained reconciliations from the management of the company. For reconciliations obtained, we identified and listed outstanding invoices, debit notes and outstanding cheques, each of which was greater than Rs. xxx. We located and examined such invoices and debit notes subsequently raised and cheques subsequently received and we

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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 receivables statements for/ confirmations from all such receivables, except for \_\_\_\_\_(number) receivables parties out of a total of \_\_\_\_\_(number) receivables parties.
- (d) With respect to item 4, we found the amounts agreed, or with respect to amounts which did not agree, we found that the management had prepared reconciliations and that the debit notes, invoices and outstanding cheques over Rs. 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, we do not express any opinion on the accounts receivable as of \_\_\_\_\_(date).

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 your company, taken as a whole.

For ABC & Co.

Signature  
(Name of the partner)  
Partner  
Chartered Accountants  
Date  
Address