

# AGREED-UPON PROCEDURES ENGAGEMENTS

More than just Stating the Facts



BY  
LOH CHAY HIAH & ALICE TAN

If you are part of the management team of a company, do you know what you are getting yourself into when you engage someone to perform an Agreed-Upon Procedures (AUP) engagement? If you are an intended user of an AUP report, do you know if it meets your needs? If you are an audit professional engaged for an AUP assignment, do you know what it takes to discharge your responsibilities? What does an AUP really entail?

## AUP DISSECTED

An AUP engagement is an assignment to report on factual findings. The relevant standard governing AUP engagements is the Singapore Standard on Related Services (SSRS) 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*.<sup>1</sup> The objective of an AUP engagement is for the audit professional to carry out procedures of an audit nature to which the audit professional, the management and any appropriate third parties have agreed on, and to report on factual

<sup>1</sup> For the complete SSRS 4400, please go to <http://caa.isca.org.sg/standards/singapore-standards-on-related-services-ssrs>

findings. Unlike a financial statement audit, the audit professional does not express any assurance in an AUP engagement. Instead, users of the AUP report assess for themselves the procedures and findings reported by the audit professional and draw their own conclusions. Hence, it is vital before the commencement of an AUP engagement that the audit professional, the management and any other relevant third parties have a clear understanding of the objectives, procedures and conditions of the engagement.

There is a general misconception that an AUP engagement is a straightforward assignment because all that is required is for the audit professional to perform the procedures that have been agreed on with the management. This cannot be further from the truth. If the nature of the AUP engagement is not well understood, the quality of work produced could eventually be compromised and management could be presented with meaningless information. Therefore, it is essential that management and audit professionals be well-informed of the nature and requirements of an AUP engagement before embarking on one.

## MANAGEMENT AND INTENDED USERS OF AUP REPORTS: A WORD OF CAUTION

Management should remember that AUP engagements do not provide any assurance and hence they should not attempt to use AUP engagements to convey assurance on the information



upon which the procedures are performed. They need to understand the requirements and needs of the users of the report. If the users are seeking to obtain some form of assurance on the information, an audit or a review might be a more appropriate alternative. Clearly understanding the objective of the engagement, including the users' need for the information, is also important as the management would then be able to design with the audit professionals, relevant procedures to



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address the engagement objectives and users' needs.

Similarly, intended users of AUP reports should know the differences between an AUP engagement and an assurance engagement before prescribing the reporting requirements. This will ensure that the deliverables received will meet their needs.

Another important consideration is to hire the right person for the job. To ensure the quality of services

rendered, what should management look out for?

At the minimum, a detailed discussion with the prospective audit professional should be conducted beforehand to assess the following:

- ⊕ Does the audit professional have the relevant skills, experience and integrity, which gives both management and the intended users of the AUP report confidence in his abilities?

- ⊕ Is the audit professional an existing auditor of the entity, and if not, does he possess adequate knowledge of the entity's business environment to design relevant procedures to address the engagement objectives and users' need for the information?

The questions are not exhaustive and more should be asked to assess the competency of the audit professional. At the end of the day, it is up to management to determine if the audit professional is capable of carrying out the engagement.

The AUP report should be restricted to those parties that have agreed to the procedures to be performed since other parties, who are not aware of the reasons for the procedures, may misinterpret the results and consequently draw inappropriate conclusions.

### **AUDIT PROFESSIONALS: BE CONSCIOUS OF THE PITFALLS**

Similarly, prior to agreeing to undertake an AUP engagement, audit professionals should discuss with the management to understand the objectives, scope and requirements of the engagement, and determine if they are equipped to carry out the engagement effectively. This is especially so if the audit professional is not the existing auditor of the entity.

Audit professionals engaged for AUP engagements should perform their work with professional competency and due care in

# TECHNICAL EXCELLENCE

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accordance with professional standards. In such instances, the audit professional has to consider if he should obtain an understanding of the nature of the entity's business, internal controls and accounting systems in place in order to assist the management to design appropriate and meaningful procedures to meet the users' need for information. For example, when engaged for an AUP assignment relating to the Statement of Expenditure (the Statement) for grant applications, the audit professional should consider gaining an understanding of the processes put in place by the entity in managing grants and in preparing the Statement. If internally-generated information is used to prepare the Statement, the audit professional should consider determining that the information is reliable before using it for the AUP engagement. Hence, depending on the nature of the engagement, additional procedures may be required to attain a better understanding of the entity.

This is not too dissimilar from review engagements. If the audit professional is the entity's independent financial statements auditor, the review is performed in accordance with Singapore Standard on Review Engagements (SSRE) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, where fewer procedures are prescribed as the auditor is already expected to have knowledge of the

entity, its business and internal control environment, acquired over the course of the annual audits. The auditor is only required to perform limited procedures to update his understanding of the entity. On the other hand, if the audit professional is not the auditor of the entity, he has to perform the review in accordance with SSRE 2400 *Engagements to Review Financial Statements* which will require him to perform additional procedures to gain an understanding of the entity's business and the industry in which it operates, as well as the accounting policies and practices adopted by the entity. As the audit professional does not ordinarily have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity, he is required to carry out different inquiries and more procedures to meet the objective of the review.

The audit professional should also be alert to circumstances where an entity is seeking to convey assurance regarding its information through the use of an AUP engagement. As highlighted earlier, the audit professional does not provide an opinion or a conclusion in an AUP engagement. The audit professional should therefore be alert to the

expressions used in the AUP report and avoid using language that may mislead users of such reports to conclude that the audit professional has provided assurance over the information. For example, expressions such as "review", "verify", "assess" and "fairly stated" should not be used in AUP reports since in most instances, they convey some measure of assurance.

## CONCLUSION

While an AUP engagement and report may not provide the users with any assurance, such an engagement may still be relevant in certain circumstances, such as when users are clear about the nature of the procedures they want to be performed.

For AUP engagements to be useful and acceptable, users need to be confident of the quality of the work performed by the audit professional and the factual findings to be reported. It will go a long way if all the parties involved clearly understand the nature of an AUP report to avoid any expectation gap. ISCA

Loh Chay Hiah is Director, Assurance & Professional Practice, Ernst & Young in Singapore, and Alice Tan is Manager, Technical Standards Development and Advisory Department, ISCA.

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