

Auditing Standard

**AUS 904**  
(July 2002)

# Engagements to Perform Agreed-upon Procedures

Prepared by the **Auditing & Assurance Standards Board** of the  
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**AUDITING STANDARD**  
**AUS 904 “ENGAGEMENTS TO PERFORM AGREED-UPON  
PROCEDURES”**

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### Introduction

- .01 The purpose of this Auditing Standard (AUS) is to establish standards and 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.
- .02 This AUS is directed towards engagements regarding financial information. However, it may provide useful guidance for engagements regarding non-financial information, provided the auditor has adequate knowledge of the subject matter in question. This AUS is to be read in conjunction with AUS 106 “Explanatory Framework for Standards on Audit and Audit Related Services”.
- .03 An engagement to perform agreed-upon procedures may involve the auditor in performing 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 statement of financial position) or a financial report.

### Objective of an Agreed-upon Procedures Engagement

- .04 ***The objective of an agreed-upon procedures engagement is for the auditor 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.***
- .05 As the auditor provides a report of the factual findings of agreed-upon procedures, no assurance is expressed. Instead, users of the report assess for themselves the procedures and findings reported by the auditor and draw their own conclusions from the auditor’s work.
- .06 The report is restricted 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.

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<sup>1</sup> The term “auditor” is used throughout this AUS. Such reference is not intended to imply that a person performing an agreed-upon procedures engagement need necessarily be the auditor of the entity nor that the service being provided is an audit. The term is used to indicate that the work is required to be performed and the report prepared by persons who have adequate training, experience and competence in auditing.

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

- .07 ***The auditor should comply with the ethical requirements of CPA Australia and The Institute of Chartered Accountants in Australia.*** Ethical principles governing the auditor’s professional responsibilities include:
- (a) independence;
  - (b) integrity;
  - (c) objectivity;
  - (d) professional competence and due care;
  - (e) confidentiality;
  - (f) professional behaviour; and
  - (g) technical standards.
- .08 ***The auditor should conduct an agreed-upon procedures engagement in accordance with Australian Auditing Standards applicable to agreed-upon procedures engagements and the terms of the engagement.*** AUS’s are mostly written in the context of audits. However they are to be applied and adapted as necessary to all agreed-upon procedures engagements.

### Terms of the Engagement

- .09 ***The auditor should ensure with representatives of the entity and, ordinarily, other specified parties who will receive copies of the report of factual findings, that there is a clear understanding regarding the agreed procedures and the conditions of the engagement.*** Matters to be agreed include the:
- (a) 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;
  - (b) stated purpose for the engagement;
  - (c) identification of the financial information to which the agreed-upon procedures will be applied;

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- (d) nature, timing and extent of the specific procedures to be applied;
  - (e) anticipated form of the report of factual findings; and
  - (f) limitations on distribution of the report of factual findings. When such limitation would be in conflict with the legal requirements if any, the auditor would not accept the engagement.
- .10 In certain circumstances, for example 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 with all the parties who will receive the report of factual findings. In such cases, 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 or sending them a draft of the type of report of factual findings that will be issued.
- .11 ***The auditor and the entity should agree on the terms of the engagement.*** The agreed terms would ordinarily be recorded in an engagement letter or other suitable form.
- .12 It is in the interest of both the entity and the auditor that the auditor sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the auditor’s acceptance of the appointment, the objective and scope of the engagement, the extent of the auditor’s responsibilities to the entity and the form of any reports of factual findings.
- .13 Matters that would be included in the engagement letter include:
  - (a) a listing of the procedures to be performed as agreed upon between the parties; and
  - (b) 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.

In addition, the auditor may consider attaching to the engagement letter a draft of the type of report of factual findings that will be issued. An example of an engagement letter for an agreed-upon procedures engagement appears in Appendix 1.

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### Planning

- .14 *The auditor should plan the work so that the agreed-upon procedures engagement will be performed in an effective manner.*

### Work Performed by Assistants

- .15 *When work is delegated to assistants, the auditor should carefully direct, supervise and review the work delegated.*

### Work Performed by Another Auditor

- .16 *When the auditor uses the work of another auditor, the auditor should determine how the work of the other auditor will affect the agreed-upon procedures engagement.*

### Work Performed by an Expert

- .17 *When using the work performed by an expert, the auditor should obtain sufficient appropriate evidence that such work is adequate for the purposes of the agreed-upon procedures engagement.*

### Documentation

- .18 *The auditor should document matters which are important in providing evidence to support the report of factual findings, and evidence that the agreed-upon procedures engagement was carried out in accordance with Australian Auditing Standards applicable to agreed-upon procedures engagements and the terms of the engagement.*

### Procedures and Evidence

- .19 *The auditor should carry out the procedures agreed upon and use the evidence obtained as the basis for the report of factual findings.*
- .20 The procedures applied in an engagement to perform agreed-upon procedures may include:
- (a) inspection;
  - (b) observation;
  - (c) inquiry and confirmation;
  - (d) computation; and

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- (e) analytical procedures.

Appendix 2 is an example report of factual findings which contains an illustrative list of procedures which may be used as one part of a typical agreed-upon procedures engagement.

### Reporting

- .21 The report of an agreed-upon procedures engagement needs to describe the purpose and the agreed-upon procedures of the engagement in sufficient detail to enable the user to understand the nature and extent of the work performed.
- .22 ***The report of factual findings should contain:***
  - (a) ***a title;***
  - (b) ***an addressee (ordinarily the client who engaged the auditor to perform the agreed-upon procedures);***
  - (c) ***identification of the specific financial or non-financial information to which the agreed-upon procedures have been applied;***
  - (d) ***a statement that the procedures performed were those agreed with the recipient;***
  - (e) ***a statement that the engagement was performed in accordance with Australian Auditing Standards applicable to agreed-upon procedures engagements;***
  - (f) ***in rare and exceptional circumstances, when a departure from a basic principle or essential procedure may be necessary, as indicated in Miscellaneous Professional Statement APS 1.1 “Conformity with Auditing Standards”, the statement required under paragraph (e) should provide details of the particular basic principle(s) or essential procedure(s) that has been departed from together with the justification for the departure. As indicated in APS 1.1, this statement is not required where the basic principle or essential procedure relates to a matter that is not material or where the Auditing Standard contains an exceptional circumstance departure provision in the black-lettering. (For example, refer AUS 504.02 “Confirmation of Receivables”).;***



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- (g) identification of the purpose for which the agreed-upon procedures were performed;*
- (h) a statement that the responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by the auditor is that of the recipient;*
- (i) a listing of the specific procedures performed or reference to the terms and procedures of the engagement contained in another document such as an engagement letter;*
- (j) a description of the auditor’s factual findings including sufficient details of errors and exceptions found;*
- (k) a statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed;*
- (l) a statement that had the auditor performed additional procedures, an audit or review, other matters might have come to the auditor’s attention that would have been reported;*
- (m) a statement that the report is restricted to those parties that have agreed to the procedures to be performed;*
- (n) a statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity’s financial report taken as a whole;*
- (o) the date of the report;*
- (p) the auditor’s address; and*
- (q) the auditor’s signature.*

Appendix 2 contains an example of a report of factual findings issued in connection with an engagement to perform agreed-upon procedures regarding financial information.

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### **Operative Date**

- .23 This AUS, which incorporates amendments made by AUS/AGS Omnibus 3 “Miscellaneous Amendments to AUSs and AGSs”, is operative from July 2002. This version of AUS 904 supersedes AUS 904 “Engagements to Perform Agreed-upon Procedures”, as revised in April 1998.

### **Compatibility with International Standards on Auditing**

- .24 Except for the matters noted below, the basic principles and essential procedures of this AUS and of International Standard on Auditing ISA 920, Engagements to Perform Agreed-upon Procedures Regarding Financial Information, are consistent in all material respects:
- (a) in addition to requiring the auditor to ensure that there is a clear understanding regarding the agreed-upon procedures and the conditions of the engagement, the Auditing & Assurance Standards Board is of the view that the auditor and entity should agree on the terms of the engagement. Hence AUS 904.11 is additional to ISA 920;
  - (b) ISA 920 requires the auditor to comply with the ethical requirements of the International Federation of Accountants (IFAC). AUS 904 requires the auditor to comply with the ethical requirements of CPA Australia and The Institute of Chartered Accountants in Australia (the Institute). Unlike the IFAC ethics which incorporate a requirement covering supervision of staff, CPA Australia and the Institute ethics do not deal with this issue. Therefore, to ensure consistency between AUS 904 and ISA 920, the Auditing & Assurance Standards Board has included in this AUS the basic principle and essential procedure in AUS 904.15;
  - (c) the Auditing & Assurance Standards Board is of the view that instances may arise when the auditor may be required to use the work of another auditor or an expert when conducting an agreed-upon procedures engagement. To address this eventuality the basic principles and essential procedures contained in AUS 904.16 and .17 are provided and are therefore additional to ISA 920;
  - (d) the Auditing & Assurance Standards Board is of the view that the independence of the auditor in carrying out the agreed-upon procedures and reporting the factual findings

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is fundamental in the context of an agreed-upon procedures engagement. This is inconsistent with ISA 920 which indicates that the independence of the auditor is not a requirement, but requires the auditor to state in the report of factual findings when the auditor is not independent; and

- (e) AUS 904 requires the auditor to indicate in the report of factual findings that the responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by the auditor is that of the recipient of the report of factual findings. This is an additional component to the report of factual findings to that contained in ISA 920.

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### *APPENDIX 1*

#### *EXAMPLE OF AN ENGAGEMENT LETTER FOR AN AGREED-UPON PROCEDURES ENGAGEMENT*

The following letter is for use as a guide in conjunction with AUS 904.09 of this AUS and is not intended to be a standard letter. The engagement letter will need to be varied according to individual requirements and circumstances.

To [the governing body or other appropriate representatives of the client who engaged the auditor]:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide. Our engagement will be conducted in accordance with Australian Auditing Standards applicable to agreed-upon procedures engagements and we will indicate so in our report. Information acquired by us in the course of our engagement is subject to strict confidentiality requirements and will not be disclosed by us to other parties except as required or allowed for by law or professional standards, or with your express consent.

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 read, individuals to be contacted and parties from whom confirmations will be obtained.)

The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by us is that of (recipient) and that the procedures we will perform are solely to assist you in (state purpose). Our report of factual findings is not to be used for any other purpose and is solely for your information.

The procedures that we will perform will not constitute an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements and, consequently, no assurance will be expressed.

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We look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentation and other information requested in connection with our engagement. Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus out-of-pocket expenses. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

Please sign and return the attached copy of this letter 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.

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of

..... Entity by

(signed)

.....

Name and Title

Date

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### APPENDIX 2

#### EXAMPLE OF A REPORT OF FACTUAL FINDINGS IN CONNECTION WITH ACCOUNTS PAYABLE

##### REPORT OF FACTUAL FINDINGS

To [those who engaged the auditor]

##### Scope

We have performed the procedures agreed with you [as detailed in the written instructions of [date] and described below with respect to the accounts payable of [entity] as of [date], set forth in the attached schedules [describe and reference the schedules (not shown in this example)]. Our engagement was undertaken in accordance with Australian Auditing Standards applicable to agreed-upon procedures engagements. The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of [those who engaged the auditor]. 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 [entity], and we compared the total to the balance in the related general ledger account.
- 2 We compared the attached schedule (not shown in this example) provided by [entity] of major suppliers and the amounts owing at [date] to the related names and amounts in the trial balance.
- 3 We obtained suppliers' statements or requested suppliers to confirm balances owing at [date].
- 4 We compared such statements or confirmations to the amounts referred to in 2. For amounts which did not agree, we obtained reconciliations from [entity]. For reconciliations obtained, we identified and listed outstanding invoices, credit notes and cheques, each of which was greater than \$XXX. We located and examined such invoices and credit notes subsequently received and cheques paid and we ascertained that they should in fact have been listed as outstanding on the reconciliations.

Because the above procedures do not constitute either an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, we do not express any assurance on the accounts payable as of [date].

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Had we performed additional procedures or had we performed an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, other matters might have come to our attention that would have been reported to you.

Findings

We report as follows:

- (a) With respect to 1 above we found the addition to be correct and the total amount to be in agreement.
- (b) With respect to 2 above we found the amounts compared to be in agreement.
- (c) With respect to 3 above we found there were suppliers’ statements for all such suppliers.
- (d) With respect to 4 above we found the amounts agreed, or with respect to amounts which did not agree, we found [entity] had prepared reconciliations and that the credit notes, invoices and cheques over \$XXX were appropriately listed as reconciling items with only the following exceptions:

[detail the exceptions]

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 distributed to any other party. This report relates only to the accounts and items specified above and does not extend to any financial report of [entity], taken as a whole.

Date  
Address

Signature