

SRS 4400

ENGAGEMENTS TO PERFORM AGREED-UPON PROCEDURES REGARDING FINANCIAL INFORMATION

*(Effective for all agreed upon
procedures engagements on or after April 1, 2004)*

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Standard on Related Services (SRS) 4400*, "Engagements to Perform Agreed-upon Procedures regarding Financial Information" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services"¹, which sets out the authority of the Engagement Standards.

* Issued in April, 2004. With the issuance of this Standard on Related Services, the "Guidance Note on Engagements to Perform Agreed Upon Procedures regarding Financial Information", issued by the Institute of Chartered Accountants of India in July 2001, shall stand withdrawn.

¹ Published in the July, 2007 issue of the Journal.

Handbook of Auditing Pronouncements-I.A

Introduction

1. The purpose of this Standard on Related Services (SRS) is to establish standards and provide guidance on the auditor's² 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. In an engagement to perform agreed-upon procedures, the auditor is engaged by the client to issue a report of factual findings, based on specified procedures performed on specified subject matter of specified elements, accounts or items of a financial statement. For example, an engagement to perform agreed-upon procedures may require the auditor to perform certain procedures concerning individual items of financial data, say, accounts payable, accounts receivable, purchases from related parties and sales and profits of a segment of an entity, or a financial statement, say, a balance sheet or even a complete set of financial statements.
3. This SRS is directed towards engagements regarding financial information. However, it may provide useful guidance for engagements to perform agreed-upon procedures regarding non-financial information; provided the auditor has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base his findings. These Standards on Auditing is to be read in conjunction with the "Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services"³. The principles laid down in the other SAs, issued by the Institute of Chartered Accountants of India, may be used by the auditor, to the extent practicable, in applying this SRS.

Objective of an Agreed-upon Procedures Engagement

4. 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.
5. As the auditor simply provides a report of the factual findings of agreed-upon procedures, no assurance is expressed by him in his report. Instead, users

² The term "auditor" is used throughout this SRS when describing services involving performance of agreed-upon procedures. Such reference is not intended to imply that a person performing related services need necessarily be the auditor of the entity's financial statements.

³ The Framework issued in 2001 has been withdrawn pursuant to the issuance of the "Framework for Assurance Engagements", which is applicable from April 1, 2008. The text of the Revised Framework is reproduced elsewhere in this Handbook.

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of the report assess for themselves the procedures and the findings reported by the auditor and draw their own conclusions from the work done by the auditor.

6. 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. 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 individuals, e.g., in case of government organisations.

General Principles of an Agreed-upon Procedures Engagement

7. The auditor should comply with the Code of Ethics, issued by the Institute of Chartered Accountants of India. Ethical principles governing the auditor's professional responsibilities for this type of engagement are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality;
- (e) Professional conduct; and
- (f) Technical standards

Independence is not a requirement for agreed-upon procedures engagement, however, the terms or objective of the engagement may require the auditor to comply with the independence requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India. Where the auditor is not independent, a statement to that effect should be made in the report of factual findings.

8. The auditor should conduct an agreed-upon procedure engagement in accordance with this SRS and the terms of the engagement.

Defining the Terms of the Engagement

9. 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 following:

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- (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.
- (d) Nature, timing and extent of the specific procedures to be applied.
- (e) 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. 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.

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 avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the auditor's responsibilities and the form of reports to be issued.

12. Matters that would be included 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 SRS.

Planning

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

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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 SRS 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 applied in an engagement to perform agreed-upon procedures may include:

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

Appendix II to this SRS is an example report which contains an illustrative list of procedures which may be used as one 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 in sufficient detail to enable the reader to understand the nature and the extent of the work performed. The report should also clearly mention that no audit or review has been performed.

18. The report of factual findings should contain:

- (a) Title;
- (b) Addressee (ordinarily, the appointing authority);
- (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 agreed-upon with the recipient;

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- (e) A statement that the engagement was performed in accordance with the Standard on Related Services applicable to agreed-upon procedures engagements;
- (f) Identification of the purpose for which the agreed-upon procedures were performed;
- (g) A listing of the specific procedures performed;
- (h) A 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;
- (j) A statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported;
- (k) A statement that the report is restricted to those parties that have agreed to the procedures to be performed;
- (l) 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 statements taken as a whole;
- (m) Date of the report;
- (n) Place of signature ; and
- (o) Auditor's signature

The report should be signed by the accountant in his personal name. Where the firm is appointed, the report should be signed in the personal name of the accountant and in the name of the firm. The partner/proprietor signing the report on agreed-upon procedures should also mention the membership number assigned by the Institute of Chartered Accountants of India

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

Effective Date

19. This Standard on Related Services is applicable to all agreed upon procedures engagements beginning on or after April 1, 2004.

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Compatibility with the International Standard on Auditing
(ISA)** 920

The standards established in this Standard on Related Services are generally consistent in all material respects with those set out in the International Standard on Auditing (ISA) 920, "Engagements to Perform Agreed-upon Procedures regarding Financial Information".

** Now the International Standard on Related Services (ISRS) 4400.

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

The following letter is for use as a guide in conjunction with paragraph 12 of this Standard on Related Services and is not intended to be a standard letter. The engagement letter will need to be varied according to individual requirements and circumstances.

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., sales, profit of a segment, accounts receivables, etc., of the 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 Standard on Related Services (SRS) 4400, "Engagements to Perform Agreed-upon Procedures regarding Financial Information", issued by the Institute of Chartered Accountants of India and we 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 read, individuals to be contacted and parties from whom confirmations will be obtained.)

The procedures that we will perform are solely to assist you in _____ (state purpose). Our report is not to be used for any other purpose and is solely for your information, and/ or for use by _____ (in case the terms of reference so require).

The procedures that we will perform will not constitute an audit or a review made in accordance with the generally accepted auditing standards in India and, consequently, no assurance will be expressed.

We look forward to your full cooperation and trust that you will make available to us whatever records, documentation and other information requested in connection with our engagement.

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Our fees will be billed as work progresses.

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.

For XYZ & Co
Chartered Accountants
.....

Signature
(Name of the Member)
Designation⁴

Date:
Address:

Acknowledged on behalf of ABC Company by
(signed)

.....
Name and Title
Date
Address

⁴ Partner or proprietor, as the case may be.

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

CONFIDENTIAL

Report Of Factual Findings In Connection With
Agreed-upon Procedures Assignment Related To Accounts Receivable

To (those who engaged the auditor)

We have performed the procedures agreed with you and enumerated below with respect to the accounts receivable of ABC Company as at _____(date), set forth in the accompanying schedules (not shown in this example). Our engagement was undertaken in accordance with the Standard on Related Services (SRS) 4400, "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 summarized as follows:

1. We obtained and checked the addition of the trial balance of accounts receivable as at _____ (date), prepared by ABC Company, and we compared the total to the balance in the related general ledger account.
2. We compared the attached list (not shown in this example) of major customers and the amounts outstanding at _____ (date) to the related names and amounts in the trial balance.
3. We obtained customers' statements or confirmations from customers 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 ABC 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 ascertained that they have been rightly 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.

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- (c) With respect to item 3, we found there were suppliers' statements for all such customers.
- (d) With respect to item 4, we found the amounts agreed, or with respect to amounts which did not agree, we found the Company 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 made in accordance with the generally accepted auditing standards in India, we do not express any assurance on the accounts receivable as at _____(date).

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with the generally accepted auditing standards in India, other matters might have come to our attention that would have been reported to you.

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 ABC Company, taken as a whole.

Date:

For XYZ & Co

Place:

Chartered Accountants

.....

Signature

(Name of the Member and Membership number)

Designation⁵

⁵ Partner or proprietor as the case may be.

