



**Agenda Item 1H**

**Proposed Chapter 7, “Compliance Attestation,” of the Clarified Attestation Standards (Clarified AT 601)  
July 21, 2015 Draft Marked from the June 8, 2015 Draft**

Agenda Item 1H is the same as agenda item 7H provided to the ASB for its July 21-23, 2015 meeting.

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p><b>Introduction</b></p> <p><b>7.1.</b> This chapter of Statements on Standards for Attestation Engagements (<del>SSAEs</del> or attestation standards) contains performance and reporting requirements and application guidance for a practitioner:</p> <ul style="list-style-type: none"> <li>a. examining an entity’s compliance with requirements of specified laws, regulations, rules, contracts, or grants (specified requirements) or an assertion about compliance with specified requirements);</li> <li>b. performing agreed-upon procedures related to an entity’s compliance with specified requirements;</li> <li>c. performing agreed-upon procedures related to an entity’s internal control over compliance with specified requirements.</li> </ul> <p>(Ref: par. 7.A1-7.A3)</p>	<p><b>Introduction</b></p> <p><b>7.A1.</b> Compliance requirements may be either financial or nonfinancial in nature. (Ref: par. 7.1)</p> <p><b>7.A2.</b> The criteria for evaluating or measuring compliance with specified requirements ordinarily are included in the specified requirements but may be otherwise identified. (Ref: par. 7.1)</p> <p><b>7.A3.</b> A practitioner may be engaged to provide other types of services in connection with an entity’s compliance with specified requirements or its internal control over compliance with specified requirements. For example, the practitioner may be engaged to provide recommendations on how to improve the entity’s compliance or related internal control. Such an engagement is governed by the guidance in CS section 100, <i>Consulting Services: Definitions and Standards</i>. (Ref: par. 7.1)</p>

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p><b>7.2.</b> This chapter does not apply to</p> <ul style="list-style-type: none"> <li>a. reviews of compliance with specified requirements or an entity's internal control over compliance or an assertion thereon because chapter 3, <i>Review Engagements</i>, specifically prohibits such engagements</li> <li>b. examination engagements in which a practitioner is reporting on an entity's internal control over compliance with specified requirements (Ref: par. 7.A4)</li> <li>c. situations in which an auditor reports on specified requirements based solely on an audit of financial statements, as addressed in AU-C section 806, <i>Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements</i>.</li> <li>d. engagements in which a governmental audit requirement requires an auditor to express an opinion on compliance in accordance with AU-C section 935, <i>Compliance Audits</i>.</li> </ul>	<p><b>7.A4.</b> An engagement to examine internal control over compliance is governed by chapters 1 and 2. Additionally, AU-C section <del>940XXX</del>, <i>An Audit of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements</i>, may be helpful to a practitioner in such an engagement.<sup>1</sup> (Ref: par. 7.2b)</p>
<p><b>7.3.</b> A report issued in accordance with the provisions of this chapter does not provide a legal determination of an entity's compliance with specified requirements. However, such a report may be useful to legal counsel or others in making such determinations.</p>	
<p><b>7.4.</b> In addition to complying with this chapter, a practitioner is required to comply with chapter 1, "Concepts Common to All Attestation Engagements," and either chapter 2, "Examination Engagements," for examinations of compliance, or chapter 4,</p>	

<sup>1</sup> The ASB is revising AT section 501, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*, as a Statement on Auditing Standards. When it is issued and codified it will be assigned a section number.

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p>"Agreed-Upon Procedures Engagements," for agreed-upon procedures engagements that address compliance. In some cases, this chapter repeats or refers to requirements found in chapters 1, 2, and 4 when describing those requirements in the context of engagements that address compliance. Although not all of the requirements in chapters 1, 2, and 4 are repeated or referred to in this chapter, the practitioner is responsible for complying with all of the requirements in chapters 1 and 2 or 1 and 4, as applicable.</p>	
<p><b>Effective Date</b></p> <p>7.5. This chapter is effective for examination reports on compliance with specified requirements and for agreed-upon procedures reports related to compliance or internal control over compliance with specified requirements dated on or after May 1, 2017.</p>	
<p><b>Objectives of an Examination Engagement</b></p> <p>7.6. In conducting an examination of an entity's compliance with specified requirements, the objectives of the practitioner are to</p> <ul style="list-style-type: none"> <li>a. obtain reasonable assurance about whether <u>in all material respects</u>, <ul style="list-style-type: none"> <li>i. an entity complied, <u>in all material respects</u> with the specified requirements, in accordance with [or based on] the <u>applicable</u> criteria or <u>about whether</u></li> <li>ii. management's assertion about its compliance with specified requirements is fairly stated <u>in all material respects</u>.</li> </ul> </li> <li>b. express an opinion in a written report about <u>the matters in paragraph 7.6a whether an entity complied in all material respects with the specified requirements, in accordance</u></li> </ul>	<p><b>Objectives of an Examination Engagement</b></p> <p>7.A5. For the purposes of this chapter, the responsible party is management of the entity for which the practitioner is reporting on <u>compliance pro forma financial information</u>. (Ref: par. 7.6)</p>

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p><del>with [or based on] the applicable criteria or about whether management's assertion about its compliance with specified requirements is fairly stated, in all material respects.</del></p>	
<p><b>Objectives of an Agreed-Upon Procedures Engagement</b></p> <p>7.7. In conducting an agreed-upon procedures engagement for which the subject matter is compliance or internal control over compliance with specified requirements, the objectives of the practitioner are to</p> <ul style="list-style-type: none"> <li>a. apply to an entity's compliance with specified requirements or an entity's internal control over compliance with specified requirements procedures that are established by specified parties who agreed upon the procedures and are responsible for the sufficiency of the procedures for their purposes.</li> <li>b. issue a written report that describes the procedures applied and the practitioner's findings.</li> </ul>	
<p><b>Definitions</b></p> <p>7.8. For the purposes of this chapter, the following terms have the meanings attributed as follows:</p> <ul style="list-style-type: none"> <li>a. <b>Compliance with specified requirements.</b> An entity's compliance with specified laws, regulations, rules, contracts, or grants.</li> <li>b. <b>Internal control over compliance.</b> An entity's internal control over compliance with specified requirements. The internal control addressed in this chapter may include part</li> </ul>	<p><b>Definitions</b></p> <p>7.A6. An entity's internal control over compliance is the process by which management obtains reasonable assurance of compliance with specified requirements. Although management's internal control may include a wide</p>

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p>of, but is not the same as, internal control over financial reporting. (Ref: par. 7.A6)</p> <p>c. <b>Material noncompliance.</b> A failure to follow compliance requirements or a violation of prohibitions included in the specified requirements that results in noncompliance that is quantitatively or qualitatively material, either individually or when aggregated with other noncompliance. (Ref: par. 7.A7)</p>	<p>variety of objectives and related policies and procedures, only some of these may be relevant to an entity's compliance with specified requirements. An entity's internal control over compliance may vary based on the nature of the compliance requirements. For example, internal control over compliance with a capital requirement would generally include accounting procedures, whereas internal control over compliance with a requirement to practice nondiscriminatory hiring may not include accounting procedures. (Ref: par. 7.8b)</p> <p><b>7.A7.</b> Government requirements or other requirements may define material noncompliance for the purpose of the engagement. (Ref: par. 7.8c)</p>
<b>Requirements</b>	
<b>Examination Engagements</b>	<b>Examination Engagements</b>
<p><b>Preconditions for Examination <del>and Agreed-Upon Procedures</del> Engagements</b></p> <p><b>7.9.</b> <u>In order to accept an attestation engagement to examine compliance with specified requirements, in addition to complying with the preconditions for an examination engagement in the requirements of chapters 1 and 2 of the attestation standards related to engagement acceptance and continuance, the practitioner should determine that the following conditions are met in order to perform an examination engagement related to an</u></p>	<p><b>Preconditions for Examination <del>and Agreed-Upon Procedures</del> Engagements</b></p> <p><b>7.A8.</b> Management is responsible for ensuring that the entity complies with the requirements applicable to its activities. That responsibility encompasses the following:</p> <ol style="list-style-type: none"> <li>a. Identifying the specified requirements</li> <li>b. Designing, implementing, and maintaining internal control to provide reasonable assurance that the entity complies with those requirements</li> </ol>

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p><del>entity's compliance with specified requirements:</del><sup>2</sup></p> <p>a. <del>m</del>Management accepts responsibility for the entity's compliance with specified requirements and the entity's internal control over compliance.</p> <p>b. <del>m</del>Management evaluates the entity's compliance with specified requirements. <u>(Ref: par. 7.A9)</u></p> <p>(Ref: par. 7.A8–7.A9)</p>	<p>c. Evaluating and monitoring the entity's compliance</p> <p>d. Specifying reports that satisfy legal, regulatory, or contractual requirements</p> <p>(Ref: par. 7.9)</p> <p><b>7.A9.</b> Management's evaluation may include documentation such as accounting or statistical data, entity policy manuals, accounting manuals, narrative memoranda, procedural write-ups, flowcharts, completed questionnaires, or internal auditors' reports. The form and extent of documentation will vary depending on the nature of the compliance requirements and the size and complexity of the entity. (Ref: par. 7.9b)</p>
<p><b>7.10.</b> As required by chapter 2<del>of the attestation standards</del>, in performing an examination engagement under this chapter, the practitioner should request from management a written assertion about compliance with specified requirements.<sup>3</sup> <del>Management may present its written assertion in either of the following:</del></p> <p><del>— a. A separate report that accompanies the practitioner's report</del></p> <p><del>— b. A representation letter to the practitioner</del></p> <p>(Ref: par. 7.A10)</p>	<p><b>7.A10.</b> Management's written assertion about compliance with specified requirements may take many forms. Throughout this chapter, for example, the phrase "management's assertion that W Company complied with [specify compliance requirement] as of [date]," illustrates such an assertion. Other phrases may also be used. A statement that is so subjective (for example, <i>substantially complied</i>) that people having competence in and using the same or similar criteria would not ordinarily be able to arrive at similar conclusions is not an appropriate written assertion. (Ref: par. 7.1)</p>
<p><b>Reasonable Assurance</b></p>	<p><b>Reasonable Assurance</b></p>

<sup>2</sup> Paragraphs 1.24–1.28 of chapter 1, "Concepts Common to All Attestation Engagements," and paragraphs 2.6 of chapter 2, "Examination Engagements."

<sup>3</sup> Paragraph 2.10 of chapter 2.

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p><b>7.11.7.10.</b> In an engagement to examine compliance with specified requirements, the practitioner should seek to obtain reasonable assurance that the entity complied with the specified requirements, in all material respects, in accordance with [or based on] the applicable criteria, including designing the examination to detect both intentional and unintentional material noncompliance.</p>	
<p><b>Materiality</b></p> <p><b>7.12.7.11.</b> As required by chapter 2, the practitioner should consider materiality when establishing the overall engagement strategy.<sup>5</sup> (Ref: par. 7.A11–7.A12)</p>	<p><b>Materiality</b></p> <p><b>7.A11.</b> The terms of an engagement may provide for a supplemental report of all or certain noncompliance discovered. Such terms would not affect the practitioner’s judgments about materiality in establishing the overall engagement strategy or in forming an opinion on an entity’s compliance with specified requirements or on management’s assertion about such compliance. (Ref: par. 7.11)</p> <p><b>7.A12.</b> In an examination of an entity’s compliance with specified requirements, the practitioner’s consideration of materiality is affected by (a) the nature of the compliance requirements, which may or may not be quantifiable in monetary terms, (b) the nature and frequency of noncompliance identified with appropriate consideration of sampling risk, and (c) qualitative considerations, including the needs and expectations of the report’s users. (Ref: par. 7.11)</p>
<p><b>Examination Procedures</b></p> <p><b>7.13.7.12.</b> The practitioner should obtain an understanding of the specified requirements. The practitioner’s procedures to obtain that understanding should include <del>all of</del> the following:</p>	<p><b>Examination Procedures</b></p> <p><b>7.A13.</b> In certain circumstances, the practitioner may determine that it is necessary to discuss the specified requirements with appropriate individuals outside the entity (for example, a regulator or specialist) (Ref: par. 7.12)</p>

<sup>5</sup> Paragraph 2.16 of chapter 2.

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p>a. Consideration of laws, regulations, rules, contracts, and grants that pertain to the specified requirements, including published requirements</p> <p>b. Consideration of knowledge about the specified requirements obtained through prior engagements and regulatory reports</p> <p>c. Discussion with appropriate individuals within the entity (for example, the chief financial officer, internal auditors, legal counsel, compliance officer, or grant or contract administrators)</p> <p>(Ref: par. 7.A13)</p>	
<p><del>7.14.7.13.</del> In an engagement to examine an entity's compliance with specified requirements when the entity has operations in several components (for example, locations, branches, subsidiaries, or programs), the practitioner should determine the nature, timing, and extent of testing to be performed at individual components. In making such a determination and in selecting the components to be tested, the practitioner should evaluate factors such as the following:</p> <p>a. The degree to which the specified requirements apply at the component level</p> <p>b. Judgments about materiality</p> <p>c. The degree of centralization of records</p> <p>d. The effectiveness of the control environment, particularly management's direct control over the exercise of authority delegated to others and its ability to supervise activities at various locations effectively</p>	

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p>e. The nature and extent of operations conducted at the various components</p> <p>f. The similarity of operations over compliance for different components</p>	
<p><b>7.15-7.14.</b> The practitioner should obtain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement and to assess control risk for compliance with specified requirements. In planning the examination, such knowledge should be used to identify types of potential noncompliance, to consider factors that affect the risk of material noncompliance, and to design appropriate tests of compliance.</p> <p>(Ref: par. 7.A14–7.A15)</p>	<p><b>7.A14.</b> A practitioner generally obtains an understanding of the design of specific controls by performing the following:</p> <ul style="list-style-type: none"> <li>a. Inquiries of appropriate management, supervisory, and staff personnel</li> <li>b. Inspection of the entity’s documents</li> <li>c. Observation of the entity’s activities and operations</li> </ul> <p>(Ref: par. 7.14)</p> <p><b>7.A15.</b> The nature and extent of procedures a practitioner performs vary from entity to entity and are influenced by factors such as the following:</p> <ul style="list-style-type: none"> <li>• The newness and complexity of the specified requirements</li> <li>• The practitioner’s knowledge of internal control over compliance obtained in previous professional engagements</li> <li>• The nature of the specified requirements</li> <li>• An understanding of the industry in which the entity operates</li> <li>• Judgments about materiality</li> </ul>

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
	(Ref: par. 7.14)
<p><del>7.16</del><b>7.15.</b> For engagements involving compliance with regulatory requirements, the practitioner's procedures should include reviewing reports of relevant examinations and related communications between regulatory agencies and the entity and, when appropriate, making inquiries of the regulatory agencies, including inquiries about examinations in progress.</p>	
<p><b>Written Representations in an Examination Engagement</b></p> <p><del>7.17</del><b>7.16.</b> In an examination engagement, in addition to the written representations from management required by chapter 2, the practitioner should request <del>from management</del> written representations that <sup>6</sup>:</p> <ul style="list-style-type: none"> <li>a. <del>a</del><b>A</b>cknowledge management's responsibility for establishing and maintaining effective internal control over compliance.</li> <li>b. <del>s</del><b>S</b>tate that management has performed an evaluation of the entity's compliance with specified requirements.</li> <li>c. <del>s</del><b>S</b>tate management's interpretation of any compliance requirements that have varying interpretations.</li> </ul> <p>(Ref: par. 7.A16)</p>	<p><b>Written Representations in an <u>Examination</u> Engagement <del>to Examine Compliance</del></b></p> <p><b>7.A16.</b> At the beginning of the engagement, the practitioner may want to consider discussing with management the need for management to provide the practitioner with a written representation letter at the conclusion of the engagement. (Ref: par. 7.16)</p>
<p><del>7.18</del><b>7.17.</b> In an examination of compliance, the practitioner should request from management the written representations required by chapter 2 <del>of the attestation standards</del> and paragraph 7.16, even if the engaging party is not management<sup>7</sup>. The</p>	<p><b>7.A17.</b> <del>Because of the nature of the subject matter,</del> this chapter does not permit the practitioner to perform the alternative procedures described in chapter 2 <del>of the attestation standards</del> (making inquiries of management and</p>

<sup>6</sup> Paragraphs 2.50 of chapter 2.

<sup>7</sup> Paragraph 2.50 of chapter 2.

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p>alternative to obtaining the required written representations provided for in chapter 2 is not permitted in an engagement to examine compliance.<sup>9</sup> Management's refusal to furnish the written representations required by chapter 2 and paragraph 7.16 constitutes a limitation on the scope of the engagement sufficient to preclude an unmodified opinion and may be sufficient to cause the practitioner to withdraw from the examination engagement, when withdrawal is possible under applicable law or regulation.<sup>11</sup> (Ref: par. 7.A17)</p>	<p>restricting the use of the report) in an examination of compliance.<sup>8</sup> Therefore, the representations need to be confirmed in writing by management.<sup>10</sup> (Ref: par. 7.17)</p>
<p><b>Reporting on an Examination</b></p> <p><b>7.19-7.18.</b> In evaluating whether the entity has complied in all material respects <u>with the specified requirements</u> (or whether management's assertion about such compliance is fairly stated in all material respects), the practitioner should evaluate (a) the nature and frequency of the noncompliance identified, and (b) whether such noncompliance is material relative to the nature of the compliance requirements.</p>	<p><b>Reporting on an Examination</b></p>
<p><b>Examination Report Content</b></p> <p><b>7.20-7.19.</b> The practitioner's examination report on compliance should include the following, unless the practitioner is disclaiming an opinion, in which case items <u>s 7.19gf</u> and 7.19h should be omitted.</p> <p>a. A title that includes the word independent</p>	<p><b>Examination Report Content</b></p> <p><b>7.A18.</b> The list of report elements in paragraph 7.19 constitutes all of the required report elements for an examination of compliance with specified requirements, including the elements required by chapter 2 <u>of the attestation standards</u>.<sup>12</sup> Application guidance regarding the elements of</p>

<sup>8</sup> Paragraph 2.51 of chapter 2

<sup>9</sup> Paragraph 2.51 of chapter 2

<sup>10</sup> ~~Paragraph 2.50 of chapter 2~~

<sup>11</sup> Paragraph 2.A63 of chapter 2

<sup>12</sup> Paragraph 2.62-2.65 of chapter 2

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p>b. An appropriate addressee as required by the circumstances of the engagement</p> <p>c. An identification of the compliance matters that are being reported on or the assertion about such matters, including the point in time or period of time to which the measurement or evaluation of compliance relates</p> <p>d. An identification of the specified requirements against which compliance was measured or evaluated (Ref: par. 7.A20)</p> <p>e. A statement that identifies</p> <ul style="list-style-type: none"> <li>i. management and its responsibility for complying with the specified requirements (when reporting on the subject matter), or for its assertion (when reporting on the assertion)</li> <li>ii. the practitioner's responsibility <del>is</del> to express an opinion on the entity's compliance with the specified requirements or on management's assertion about the entity's compliance with the specified requirements, based on the practitioner's examination</li> </ul> <p>f. A statement that</p> <ul style="list-style-type: none"> <li>i. the examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants</li> <li>ii. those standards require that the practitioner plan and</li> </ul>	<p>an examination report is included in chapter 2 <del>of the attestation standards</del>.<sup>13</sup> (Ref: par. 7.19)</p> <p><b>7.A19.</b> Examples 1 and 2 in the exhibit to this chapter provide illustrations of examination reports on compliance. (Ref: par. 7.19)</p> <p><b>7.A20.</b> Item 7.19d represents the criteria for measuring or evaluating compliance with the compliance requirements. (Ref: par. 7.19d)</p>

<sup>13</sup> Paragraphs 2.A74–2.A95 of chapter 2.

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p>perform the examination to obtain reasonable assurance about whether</p> <p>(1) the entity complied, in all material respects, with the specified requirements, <del>in accordance with [or based on] the identified criteria</del> or</p> <p>(2) management's assertion about compliance is fairly stated, in all material respects</p> <p>iii. the practitioner believes the evidence obtained is sufficient and appropriate to provide a reasonable basis for the practitioner's opinion</p> <p>g. A description of the nature of an examination engagement</p> <p>h. A statement that describes significant inherent limitations, if any, associated with the measurement or evaluation of the entity's compliance with specified requirements or its assertion thereon</p> <p>i. A statement that the examination does not provide a legal determination on the entity's compliance <u>with specified requirements</u></p> <p>j. The practitioner's opinion about whether, <u>in all material respects</u> .</p> <p>(1) the entity complied with the specified requirements, <del>in all material respects, in accordance with [or based on] the identified criteria</del> or</p> <p>(2) management's assertion about the entity's compliance <u>with specified requirements</u> is fairly stated, <del>in all material respects</del></p> <p>k. When the circumstances identified in chapter 2 <del>of the attestation standards</del> are applicable, an alert in a separate</p>	

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p>paragraph that restricts the use of the report or describes the purpose of the report, as applicable <sup>14</sup></p> <p><i>l.</i> The manual or printed signature of the practitioner’s firm</p> <p><i>m.</i> The city and state where the practitioner practices</p> <p><i>n.</i> The date of the report. (The report should be dated no earlier than the date on which the practitioner has obtained sufficient appropriate evidence on which to base the practitioner’s opinion, including evidence that</p> <p style="padding-left: 40px;"><i>i.</i> the attestation documentation has been reviewed, and</p> <p style="padding-left: 40px;"><i>ii.</i> management has provided a written assertion.)</p> <p>(Ref: par. 7.A18–7.A19)</p>	
<p><del>7.21</del><u>7.20</u>. Frequently, criteria will be contained in the compliance requirements, in which case it is not necessary to repeat the criteria in the practitioner’s report; however, if the criteria are not included in the compliance requirement, the practitioner’s report should identify the criteria. (Ref: par.7.A21–7.A23)</p>	<p><b>7.A21.</b> Ordinarily the criteria are included in the specified requirements. In that case, the identification may say, “We have examined management of XYZ Company’s compliance with [<i>identify the specified requirements...</i>].” (Ref: par. 7.20)</p> <p><b>7.A22.</b> If a compliance requirement is to “maintain \$25,000 in capital,” it would not be necessary to identify the \$25,000 in the report; however, if the requirement is subjectively worded, for example, to “maintain adequate capital,” the criteria used to define <i>adequate</i> would be included in the report. (Ref: par. 7.20)</p> <p><b>7.A23.</b> When evaluating compliance with certain requirements requires interpretation of the laws, regulations, rules, contracts, or grants that establish those requirements, the practitioner evaluates whether the criteria are suitable for evaluating compliance. If these interpretations are significant,</p>

<sup>14</sup> Paragraph 2.63 of chapter 2.

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
	<p>the practitioner may include a paragraph describing the interpretations and identifying the source of the interpretations made by the entity's management. The following is an example of such a paragraph:</p> <p style="padding-left: 40px;">We have been informed that, under [<i>name of entity</i>]'s interpretation of [<i>identify the compliance requirement</i>], [<i>explain the source and nature of the relevant interpretation</i>].</p> <p>(Ref: par. 7.20)</p>
<p><b>Modified Opinions</b></p> <p><del>7.22-7.21.</del> If the practitioner determines that there is material noncompliance, the report should describe the material noncompliance and the opinion should be modified in accordance with chapter 2 <del>of the attestation standards.</del><sup>15</sup> (Ref: par 7.A24–7.A28)</p>	<p><b>Modified Opinions</b></p> <p><i>Qualified Opinion</i></p> <p><b>7.A24.</b> The following is an example of</p> <ol style="list-style-type: none"> <li>a. a paragraph that would be added to the practitioner's report to describe the matter giving rise to the qualified opinion, and</li> <li>b. <del>an</del>the opinion paragraph of <del>the</del> report containing the qualified opinion:</li> </ol> <p style="padding-left: 40px;">Our examination disclosed the following material noncompliance with [<i>type of compliance requirement</i>] applicable to [<i>name of entity</i>] during the [<i>period</i>] ended [<i>date</i>]. [<i>Describe noncompliance.</i>]</p> <p style="padding-left: 40px;">In our opinion, except for the material noncompliance described in the preceding paragraph, [<i>name of entity</i>] complied, in all material respects, with the</p>

<sup>15</sup> Paragraphs 2.67-2.82 of chapter 2.

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
	<p>aforementioned requirements for the <i>[period]</i> ended <i>[date]</i>.</p> <p>(Ref: par. 7.21)</p> <p>Adverse Opinion</p> <p><b>7.A25.</b> The following is an example of</p> <ul style="list-style-type: none"> <li>a. a paragraph that would be added to the practitioner's report to describe the matter(s) giving rise to the adverse opinion, and</li> <li>b. an opinion paragraph of a report containing an adverse opinion:</li> </ul> <p style="padding-left: 40px;">Our examination disclosed the following material noncompliance with <i>[type of compliance requirement]</i> applicable to <i>[name of entity]</i> during the <i>[period]</i> ended <i>[date]</i>. <i>[Describe noncompliance.]</i></p> <p style="padding-left: 40px;">In our opinion, because of the effect of the noncompliance described in the preceding paragraph, <i>[name of entity]</i> has not complied with the aforementioned requirements for the <i>[period]</i> ended <i>[date]</i>.</p> <p>(Ref: par. 7.21)</p> <p><b>7.A26.</b> If the practitioner's report containing a qualified or adverse opinion on the entity's compliance with specified requirements is included in a document that also includes the practitioner's audit report on the entity's financial statements, the practitioner's compliance report may indicate that the</p>

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
	<p>noncompliance was considered during the audit. (Ref: par. 7.21)</p> <p><b>7.A27.</b> The following is an example of an additional sentence that may be included in the opinion paragraph of an examination report that describes material noncompliance:</p> <p style="padding-left: 40px;">We considered the effect of these conditions on our audit of the 20XX financial statements. This report on XYZ Company's compliance with [<i>identify the specified requirements</i>] does not affect our audit report dated [<i>date of report</i>] on those financial statements.</p> <p>(Ref: par. 7.21)</p> <p><b>7.A28.</b> The practitioner also may include the preceding sentence when the two reports are not included in the same document. (Ref: par. 7.21)</p>
<b>Agreed-Upon Procedures Engagements</b>	<b>Agreed-Upon Procedures Engagements</b>
<p><b>Preconditions for an Agreed-Upon Procedures Engagement</b>  <del>7.23-7.22. In order to accept an attestation engagement to apply agreed-upon procedures related to compliance with specified requirements or internal control over compliance with specified requirements, in addition to the preconditions for an agreed-upon procedures engagement complying with the requirements specified in chapters 1 and 4 related to engagement acceptance and continuance, the practitioner should determine that the following conditions are met in order to perform an agreed-upon procedures engagement related to an entity's compliance with specified requirements or internal control over compliance</del><sup>16</sup> :</p>	<p><b>Preconditions for an Agreed-Upon Procedures Engagement</b></p> <p><b>7.A29.</b> Management is responsible for ensuring that the entity complies with the requirements applicable to its activities. That responsibility encompasses the following:</p> <p style="padding-left: 40px;">a. Identifying the specified requirements</p>

<sup>16</sup> Paragraphs 1.24–1.28 of chapter 1 and paragraphs 4.9-4.10 of chapter 4, "Agreed-Upon Procedures Engagements."

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p>a. <u>m</u>Management accepts responsibility for the entity's compliance with specified requirements and the entity's internal control over compliance.</p> <p>b. <u>m</u>Management evaluates the entity's compliance with specified requirements or the entity's internal control over compliance.</p> <p>(Ref: par. 7.A29–7.A30)</p>	<p>b. Establishing and maintaining internal control to provide reasonable assurance that the entity complies with those requirements</p> <p>c. Evaluating and monitoring the entity's compliance</p> <p>d. Specifying reports that satisfy legal, regulatory, or contractual requirements</p> <p>(Ref: par. 7.22)</p> <p><b>7.A30.</b> Management's evaluation may include documentation such as accounting or statistical data, entity policy manuals, accounting manuals, narrative memoranda, procedural write-ups, flowcharts, completed questionnaires, or internal auditors' reports. The form and extent of documentation will vary depending on the nature of the compliance requirements and the size and complexity of the entity. (Ref: par. 7.22)</p>
<p><del>7.24.7.23.</del> The practitioner should obtain an understanding of the specified requirements. The practitioner's procedures to obtain that understanding should include all of the following:</p> <p>a. Consideration of laws, regulations, rules, contracts, and grants that pertain to the specified requirements, including published requirements</p> <p>b. Consideration of knowledge about the specified requirements obtained through prior engagements and regulatory reports</p> <p>c. Discussion with appropriate individuals within the entity (for example, the chief financial officer, internal auditors,</p>	<p><del>The practitioner should obtain an understanding of the specified requirements. The practitioner's procedures to obtain that understanding should include all of the following:</del></p>

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p>legal counsel, compliance officer, or grant or contract administrators)</p>	
<p><b>Written Representations in an Agreed-Upon Procedures Engagement</b></p> <p><del>7.25-7.24.</del> In an agreed-upon procedures engagement in addition to the written representations from management required by chapter 4, the practitioner should request <del>from management</del> written representations <u>from management</u> that<sup>1</sup> (Footnote numbering to be corrected)</p> <ul style="list-style-type: none"> <li>a. acknowledge management's responsibility for establishing and maintaining effective internal control over compliance.</li> <li>b. state that management has performed an evaluation of (1) the entity's compliance with specified requirements, or (2) the entity's controls for establishing and maintaining internal control over compliance and detecting noncompliance with requirements, as applicable.</li> <li>c. state management's interpretation of any compliance requirements that have varying interpretations.</li> <li>d. state that management has disclosed any known noncompliance occurring subsequent to the period covered by the practitioner's report.</li> </ul> <p>(Ref: par. 7.A31)</p>	<p><b>Written Representations in an Agreed-Upon Procedures Engagement</b></p> <p><del>7.A31. When the engaging party is not management, the practitioner may also want to request written representations from the engaging party. For example, when the engaging party has entered into a contract with management and the practitioner is engaged to perform agreed-upon procedures relevant to management's compliance with that contract, the practitioner may want to request written representations from the engaging party as to their knowledge of any noncompliance. (Ref: par. 7.24)</del></p>

<sup>17</sup> Paragraph 4.27 of chapter 4

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p><del>7.26.7.25.</del> <del>The date of the written representations should be as of the date of the agreed-upon procedures report. The written representations should address the subject matter and periods referred to in the practitioner's report.</del> <b>The second sentence was moved to par. 4.29.</b></p>	
<p><b>Agreed-Upon Procedures Report Content</b></p> <p><del>7.27.7.26.</del> The practitioner's agreed-upon procedures report on compliance should <del>include</del><del>contain</del> the following:</p> <ol style="list-style-type: none"> <li>a. A title that includes the word independent</li> <li>b. An appropriate addressee as required by the circumstances of the engagement</li> <li>c. An indication that the subject matter of the engagement is the entity's compliance during a period or as of a point in time</li> <li>d. An identification of the specified requirements against which the entity's compliance was measured or evaluated.</li> <li>e. An indication that management of the entity is responsible for the entity's compliance with the specified requirements</li> <li>f. An identification of the specified parties</li> <li>g. A statement that</li> </ol>	<p><del>7.A32.7.A31.</del> The list of report elements in paragraph 7.27 constitutes all of the required elements for a report on the application of agreed-upon procedures related to an entity's compliance with specified requirements, including the elements required by chapter 4 <del>of the attestation standards.</del><sup>17</sup> Application guidance regarding the elements of an agreed-upon procedures report is included in chapter 4 <del>of the attestation standards.</del><sup>18</sup> (Ref: par. 7.27)</p> <p><del>7.A33.7.A32.</del> In some agreed-upon procedures engagements, procedures may relate to both compliance with specified requirements and the entity's internal control over compliance. In these engagements, the practitioner may issue one report that addresses both. For example, the first sentence of the introductory paragraph may state the following:</p> <p style="padding-left: 40px;">We have performed the procedures enumerated below, related to <i>[name of entity]</i>'s compliance with <i>[identify the specified requirements]</i> during the <i>[period]</i> ended <i>[date]</i> and <i>[name of entity]</i>'s internal control over compliance with the aforementioned compliance requirements as of <i>[date]</i>.</p>

<sup>17</sup> Paragraph 4.34 of chapter 4.

<sup>18</sup> Paragraphs 4.A36–4.A43 of chapter 4.

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<ul style="list-style-type: none"> <li>i. the sufficiency of the procedures is solely the responsibility of those parties specified in the report</li> <li>ii. the practitioner makes no representation regarding the sufficiency of the procedures either for the purpose for which the report has been requested or for any other purpose</li> <li>h. A list of the procedures performed (or reference thereto) and related findings (The practitioner should not provide a conclusion.)</li> <li>i. When applicable, a description of any agreed-upon materiality limits</li> <li>j. A statement that:                             <ul style="list-style-type: none"> <li>i. the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.</li> <li>ii. the practitioner was not engaged to and did not conduct an examination or review of compliance <u>or internal control over compliance</u>, the objective of which would be the expression of an opinion or a conclusion, respectively, on compliance (or internal control over compliance).</li> <li>iii. the practitioner does not express such an opinion or conclusion.</li> <li>iv. had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported.</li> </ul> </li> </ul>	<p>(Ref: par. 7.27)</p> <p><b>7.A34-7.A33.</b> When performing agreed-upon procedures related to an entity's compliance with specified requirements, or an entity's internal control over compliance with certain requirements requires interpretation of the laws, regulations, rules, contracts, or grants that establish those requirements, the practitioner evaluates whether the criteria are suitable for performing such agreed-upon procedures and reporting findings. If these interpretations are significant, the practitioner may include a paragraph describing the interpretations made by management and the source of the interpretations. An example of such a paragraph, which would precede the procedures and findings paragraph(s), follows:</p> <p style="padding-left: 40px;"><i>We have been informed that, under [name of entity]'s interpretation of [identify the compliance requirement], [Explain the nature and source of the relevant interpretation].</i></p> <p>(Ref: par. 7.27 )</p> <p><b>7.A35-7.A34.</b> Example 3 in the exhibit to this chapter provides an illustration of an agreed-upon procedures report related to compliance with specified requirements. Example 4 in the exhibit to this chapter provides an illustration of an agreed-upon procedures report related to internal control over compliance with specified requirements. (Ref: par. 7.27)</p>

Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs	Application and Other Explanatory Material
<p>k. An alert in a separate paragraph that restricts the use of the practitioner's report. The alert should</p> <ul style="list-style-type: none"> <li>i. state that the practitioner's report is intended solely for the information and use of the specified parties,</li> <li>ii. identify the specified parties for whom use is intended, and</li> <li>iii. state that the practitioner's report is not intended to be and should not be used by anyone other than the specified parties.</li> </ul> <p>l. When the engagement is also performed in accordance with <i>Government Auditing Standards</i>, the alert that restricts the use of the report should include the following information rather than the information required by paragraph 7.27k:</p> <ul style="list-style-type: none"> <li>i. A description of the purpose of the practitioner's report, and</li> <li>ii. A statement indicating that the practitioner's report is not suitable for any other purpose.</li> </ul> <p>m. When applicable, reservations or restrictions concerning procedures or findings</p> <p>n. When applicable, a description of the nature of the assistance provided by a practitioner's specialist</p> <p>o. The manual or printed signature of the practitioner's firm</p> <p>p. The city and state where the practitioner practices</p>	

<b>Introduction, Effective Date, Objective, Definition, and Requirement Paragraphs</b>	<b>Application and Other Explanatory Material</b>
<p><i>q.</i> The date of the report (The report should be dated no earlier than the date on which <i>i.</i> the practitioner completed the procedures and determined the findings, <u>including that-</u></p> <ul style="list-style-type: none"><li><i>ii.</i> the attestation documentation has been reviewed, and</li><li><i>iii.</i> management has provided a written assertion, unless management is unwilling to provide an assertion.</li></ul> <p>(Ref: par. 7.A32–7.A35)</p>	

7.A36-7.A35.

**Exhibit: Illustrative Reports for Examination and Agreed-Upon Procedures Engagements Related to Compliance With Specified Requirements and for Agreed-Upon Procedures Engagements Related to Internal Control Over Compliance With Specified Requirements**

The illustrative examination reports in this exhibit (Examples 1 and 2) meet the reporting requirements of chapter 2 ~~of the attestation standards~~, "Examination Engagements," and of paragraphs 7.19–7.22.<sup>1</sup> A practitioner may use alternative language in drafting an examination report, provided that the language meets the applicable requirements of chapter 2 ~~of the attestation standards~~ and paragraphs 7.19–7.22.<sup>2</sup>

The illustrative agreed-upon procedures reports in this exhibit (Examples 3 and 4) meet the applicable reporting requirements of chapter 4 ~~of the attestation standards~~, "Agreed-Upon Procedures Engagements," and of paragraph 7.27.<sup>3</sup> A practitioner may use alternative language in drafting an agreed-upon procedures report, provided that the language meets the applicable requirements of chapter 4 and paragraph 7.27.<sup>4</sup>

**Example 1: Examination Report on Compliance; Unmodified Opinion**

The following is an illustrative examination report for an engagement in which the practitioner is reporting on subject matter (an entity's compliance with specified requirements during a period of time).

Independent Accountant's Report

*[Appropriate addressee]*

We have examined XYZ Company's compliance with *[identify the specified requirements by either listing the requirements or referring to the requirements, for example, "the requirements listed in Attachment 1"]* during the period *[date]* to *[date]*. Management of XYZ Company is responsible for XYZ Company's compliance with those specified requirements. Our responsibility is to express an opinion on XYZ Company's compliance with the specified requirements based on our examination.

<sup>1</sup> Paragraphs 2.60–2.82 of chapter 2.

<sup>2</sup> Paragraphs 2.60–2.82 of chapter 2.

<sup>3</sup> Paragraphs 4.32–4.40 of chapter 4.

<sup>4</sup> Paragraphs 4.32–4.40 of chapter 4.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether XYZ Company complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether XYZ Company complied with the specified requirements. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on XYZ Company's compliance with specified requirements.

In our opinion, XYZ Company complied, in all material respects, with *(Identify the specified requirements by either listing the requirements or referring to the requirements, for example, "the requirements listed in Attachment 1 during the period [date] to [date]").*

*[Practitioner's signature]*

*[Practitioner's city and state]*

*[Date of practitioner's report]*

## **Example 2: Examination Report on an Assertion About Compliance; Unmodified Opinion**

The following is an illustrative examination report for an engagement in which the practitioner is reporting on the management's assertion about compliance with specified requirements and management's assertion accompanies the practitioner's report.

### Independent Accountant's Report

*[Appropriate Addressee]*

We have examined *[title of the responsible party—for example, management of XYZ Company]*'s assertion that XYZ Company complied with *[identify the specified requirements by listing them or making reference to them—for example, "the requirements listed in Attachment 1"]* during the period *[date]* to *[date]*.<sup>5</sup> Management of XYZ Company's management is responsible for its assertion.

<sup>5</sup> If management's assertion accompanies the practitioner's report, the practitioner refers to management's assertion by using the same title as management used for its assertion. The practitioner's report also uses the same description of the specified requirements that management used

Our responsibility is to express an opinion on management's assertion [about XYZ Company's compliance with the specified requirements](#) based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about whether management's assertion is fairly stated, in all material respects. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on XYZ Company's compliance with specified requirements.

In our opinion, management's assertion that XYZ Company complied with [*identify the specified requirements by listing them or making reference to them—for example, "the requirements listed in Attachment 1"*], is fairly stated, in all material respects.

[*Practitioner's signature*]

[*Practitioner's city and state*]

[*Date of practitioner's report*]

### **Example 3: Agreed-Upon Procedures Report Related to Compliance**

The following is an illustrative agreed-upon procedures report related to an entity's compliance with specified requirements in which the procedures and findings are enumerated rather than referenced.

#### Independent Accountant's Report on Applying Agreed-Upon Procedures

[*Appropriate Addressee*]

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in its assertion. If management's assertion is stated in the practitioner's report rather than accompanying the practitioner's report, the word "accompanying" would be omitted.

We have applied the procedures enumerated below related to XYZ Company's compliance with *[identify the specified requirements by listing them or referring to them—for example, "the requirements listed in Attachment 1"]* during the period *[date]* to *[date]*.<sup>6</sup> XYZ Company's management is responsible for its compliance with those requirements. The procedures performed were those agreed to by *[identify the specified parties]* who are solely responsible for the sufficiency of the procedures for their purposes. Consequently, we make no representations regarding the sufficiency of the procedures enumerated below either for the purpose for which the report has been requested or for any other purpose.

*[Include paragraphs to enumerate procedures and findings.]*

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review of the entity's compliance with specified requirements, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance. Accordingly, we do not express such an opinion or conclusion. 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 *[list or refer to specified parties]* and is not intended to be and should not be used by anyone other than these specified parties.

*[Practitioner's signature]*

*[Practitioner's city and state]*

*[Date of practitioner's report]*

#### **Example 4: Agreed-Upon Procedures Report Related to Internal Control Over Compliance**

The following is an illustrative agreed-upon procedures report related to an entity's internal control over compliance in which the procedures and findings are enumerated rather than referenced.

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<sup>6</sup> If the agreed-upon procedures have been published by a third-party user (for example, a regulator in regulatory policies or a lender in a debt agreement), this sentence might begin as follows: "We have performed the procedures included in *[title of publication or other document]* and enumerated below..."

Independent Accountant's Report on Applying Agreed-Upon Procedures

*[Appropriate Addressee]*

We have applied the procedures enumerated below related to XYZ Company's internal control over compliance with *[identify the specified requirements]* as of *[date]*.<sup>7</sup> XYZ Company's management is responsible for its internal control over compliance with the aforementioned requirements. The procedures performed were those agreed to by *[identify the specified parties]* who are solely responsible for the sufficiency of the procedures for their purposes. Consequently, we make no representations regarding the sufficiency of the procedures enumerated below either for the purpose for which the report has been requested or for any other purpose.

*[Include paragraphs to enumerate procedures and findings.]*

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review of internal control over compliance with the specified requirements, the objective of which would be the expression of an opinion or conclusion, respectively, on internal control over compliance. Accordingly, we do not express such an opinion or conclusion. 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 *[list or refer to specified parties]* and is not intended to be and should not be used by anyone other than these specified parties.

*[Practitioner's signature]*

*[Practitioner's city and state]*

*[Date of practitioner's report]*

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<sup>7</sup> If the agreed-upon procedures have been published by a third-party user (for example, a regulator in regulatory policies or a lender in a debt agreement), this sentence might begin as follows: "We have performed the procedures included in *[title of publication or other document]* and enumerated below...."