



Agenda Item 1G

May 2018 Draft of AT-C Section 315, *Compliance Attestation* (Marked from Extant)

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p><b>Introduction</b></p> <p><b>.1 .01</b> This section contains performance and reporting requirements and application guidance for a practitioner (Ref: par. .A1-.A3.<del>A1-A3</del>)</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><b>Introduction (Ref: par. <del>.1.01</del> and <del>2.02b</del>)</b></p> <p><b>.A1 .A1</b> Compliance requirements may be either financial or nonfinancial in nature.</p> <p><b>.A2 .A2</b> The criteria for evaluating or measuring compliance with specified requirements ordinarily are included in the specified requirements but may be otherwise identified.</p> <p><b>.A3 .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> (AICPA, <i>Professional Standards</i>).</p>
<p><b>.2 .02</b> This section 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</li> </ul>	<p><b>.A4 .A4</b> An engagement to examine internal control over compliance is governed by sections 105 and 205. Additionally, AU-C section 940, <i>An Audit of an Entity’s Internal Control Over Financial Reporting</i></p>

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<p>thereon because section 210, <i>Limited Assurance Review Engagements</i>, specifically prohibits such engagements.<sup>1</sup></p> <p>b. examination engagements in which a practitioner is reporting on an entity’s internal control over compliance with specified requirements. (Ref: par. .A4.A4)</p> <p>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> (AICPA, <i>Professional Standards</i>).</p> <p>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> (AICPA, <i>Professional Standards</i>).</p> <p><b>.3 .03</b> A practitioner’s report issued in accordance with the provisions of this section 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><i>That Is Integrated With an Audit of Its Financial Statements</i> (AICPA, <i>Professional Standards</i>), may be helpful to a practitioner in such an engagement.</p>
<p><b>.4 .04</b> In addition to complying with this section, a practitioner is required to comply with section 105, <i>Concepts Common to All Attestation Engagements</i>, and either section 205, <i>Examination Engagements</i>, for examinations of compliance, or section 215, <i>Agreed-Upon Procedures Engagements</i>, for agreed-upon</p>	

<sup>1</sup> Paragraph .07 of section 210, *Limited Assurance Review Engagements*.

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<p>procedures engagements that address compliance. In some cases, this section repeats or refers to requirements found in sections 105, 205, and 215 when describing those requirements in the context of engagements that address compliance. Although not all the requirements in sections 105, 205, and 215 are repeated or referred to in this section, the practitioner is responsible for complying with all the requirements in sections 105 and 205 or 105 and 215, as applicable.</p>	
<p><b>Effective Date</b>  <b>.5 .05</b> This section is effective for practitioners’ examination reports on compliance with specified requirements and for practitioners’ agreed-upon procedures reports related to compliance or internal control over compliance with specified requirements dated on or after <u>Month XX</u><del>May 1</del>, 2018<u>7</u>.</p>	
<p><b>Objectives of an Examination Engagement</b>  <b>.6 .06</b> In conducting an examination of an entity’s compliance with specified requirements, the objectives of the practitioner are to (Ref: par. <del>.A5-A5</del>)</p> <ul style="list-style-type: none"> <li>a. obtain reasonable assurance about whether the entity complied with the specified requirements, in all material respects,</li> <li>b. express an opinion in a written report about whether             <ul style="list-style-type: none"> <li>i. the entity complied with the specified requirements, in all material respects, or</li> <li>ii. management’s assertion about its compliance with the specified requirements is fairly stated, in all material respects.</li> </ul> </li> </ul>	<p><b>Objectives of an Examination Engagement (Ref: par. <del>6-.06</del>)</b>  <b>.A5 .A5</b> For the purposes of this section, the responsible party is management of the entity for which the practitioner is reporting on compliance.</p>

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<p><b>Objectives of an Agreed-Upon Procedures Engagement</b></p> <p><b>.7 <del>.07</del></b> 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 <u>specific procedures</u> to an entity's compliance with specified requirements or an entity's internal control over compliance with specified requirements <del>procedures that are established by specified parties who are responsible for the sufficiency of the procedures for their purposes and</del></li> <li>b. issue a written report that describes the procedures applied and the practitioner's findings <u>without providing an opinion or conclusion on the subject matter.</u></li> </ul>	
<p><b>Definitions</b></p> <p><b>.8 <del>.08</del></b> For the purposes of this section, the following terms have the meanings attributed as follows:</p> <p><b>Compliance with specified requirements.</b> An entity's compliance with specified laws, regulations, rules, contracts, or grants.</p> <p><b>Internal control over compliance.</b> An entity's internal control over compliance with specified requirements. The internal control addressed in this section may include part of, but is not the same as, internal control over financial reporting. (Ref: par. <del>.A6</del>.A6)</p>	<p><b>Definitions</b></p> <p><b><i>Internal Control Over Compliance</i></b></p> <p><b>.A6 <del>A6</del></b> 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 variety of objectives and related policies and</p>

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<p><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. .A7-<del>A7</del>)</p>	<p>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.</p> <p><b>Material Noncompliance</b>  <del>.A7</del> <del>.A7</del> Government requirements or other requirements may define material noncompliance for the purpose of the engagement.</p>
<p><b>Requirements</b></p>	
<p><b>Preconditions for Examination Engagements</b></p> <p><del>.9</del> <del>.09</del> In order to accept an attestation engagement to examine compliance with specified requirements, in addition to the preconditions for an examination engagement in sections 105 and 205, the practitioner should determine that <sup>2</sup>(Ref: par. <del>.A8</del> <del>.A9</del>)</p> <ul style="list-style-type: none"> <li><del>⊖</del> management accepts responsibility for the entity’s compliance with specified requirements and the entity’s internal control over compliance. (Ref: par. <del>.A8</del> <del>.A9</del>)</li> </ul>	<p><b>Preconditions for Examination Engagements (Ref: par. .09-.10)</b></p> <p><del>.A8</del> <del>.A8</del> Management is responsible for ensuring that the entity complies with the requirements applicable to its activities. That responsibility encompasses the following:</p> <ul style="list-style-type: none"> <li>a. Identifying <b>and complying with</b> the specified requirements</li> <li>b. Designing, implementing, and maintaining internal control to provide reasonable assurance that the entity complies with those requirements</li> <li><del>⊖</del> <del>Evaluating and monitoring the entity’s compliance</del></li> </ul>

<sup>2</sup> Paragraphs ~~.24~~-.28 of section 105, *Concepts Common to All Attestation Engagements*, and paragraph .06 of section 205, *Examination Engagements*.

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<p><del>b. management evaluates the entity's compliance with specified requirements. (Ref: par. .A9)</del></p>	<p><del>cd.</del> Specifying reports that satisfy legal, regulatory, or contractual requirements</p> <p><del>.A9</del> <b>.A9</b> <u>In carrying out its responsibilities, management will ordinarily have Management's evaluation may include documentation regarding its compliance,</u> 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.</p>
<p><del>.10 In performing an examination under this section, the practitioner should request from management a written assertion. If management refuses to provide a written assertion, the practitioner should withdraw from the engagement when withdrawal is possible under applicable law or regulation. (Ref: par. .A10 .A11)</del></p>	<p><del>.A10 Management's written assertion about compliance with specified requirements may take many forms. Throughout this section, 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, substantially complied) 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.</del></p> <p><del>.A11 Paragraph 10 applies regardless of whether the responsible party is the engaging party.</del></p>
<p><b>Reasonable Assurance</b></p> <p><del>.10</del> <b>.11</b> In an engagement to examine compliance with specified requirements, the practitioner should seek to obtain reasonable</p>	

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assurance that the entity complied with the specified requirements, in all material respects, including designing the examination to detect both intentional and unintentional material noncompliance.	
<p><b>Materiality</b></p> <p><del>.11 .12</del> As required by section 205, the practitioner should consider materiality when establishing the overall engagement strategy.<sup>3</sup> (Ref: par. .A10–.A11.<del>A12–.A13</del>)</p>	<p><b>Materiality (Ref: par. .11.<del>12</del>)</b></p> <p><del>.A10 .A12</del>The terms of an engagement may provide for a supplemental practitioner’s 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.</p> <p><del>.A11 .A13</del> 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 users of the practitioner’s report.</p>
<p><b>Examination Procedures</b></p> <p><del>.12 .13</del> The practitioner should obtain an understanding of the specified requirements. The practitioner’s procedures to obtain that understanding should include the following: (Ref: par. .A12.<del>A14</del>)</p>	<p><b>Examination Procedures (Ref: par. .12.<del>13</del> and .14.<del>15</del>)</b></p> <p><del>.A12 .A14</del> 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).</p>

<sup>3</sup> Paragraph .16 of section 205.

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<ul style="list-style-type: none"> <li>a. Consideration of laws, regulations, rules, contracts, and grants that pertain to the specified requirements, including published requirements</li> <li>b. Consideration of knowledge about the specified requirements obtained through prior engagements and regulatory reports</li> <li>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)</li> </ul>	
<p><b>.13 .14</b> 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> <ul style="list-style-type: none"> <li>a. The degree to which the specified requirements apply at the component level</li> <li>b. Judgments about materiality</li> <li>c. The degree of centralization of records</li> <li>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</li> <li>e. The nature and extent of operations conducted at the various components</li> </ul>	

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<p><i>f.</i> The similarity of operations over compliance for different components</p>	
<p><b>.14</b> <del>.15</del> 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. (Ref: par..A13–.A13 <del>.A15–.A16</del>)</p>	<p><b>.A13</b> <del>.A15</del> A practitioner generally obtains an understanding of the design of specific controls by performing the following:</p> <ol style="list-style-type: none"> <li><i>a.</i> Inquiries of appropriate management, supervisory, and staff personnel</li> <li><i>b.</i> Inspection of the entity’s documents</li> <li><i>c.</i> Observation of the entity’s activities and operations</li> </ol> <p><b>.A14</b> <del>.A16</del> 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>
<p><b>.15</b> <del>.16</del> 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><b>Written Representations in an Examination Engagement (Ref: par. .16.17)</b></p>

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<p><b>.16 <del>.17</del></b> In an examination engagement, in addition to the written representations from management required by section 205, the practitioner should request written representations from management that<sup>4</sup> (Ref: par. .A15<del>-.A17</del>)</p> <p><u><del>a. acknowledge management’s responsibility for compliance with specified requirements.</del></u></p> <p><del>a.b.</del> acknowledge management’s responsibility for establishing and maintaining effective internal control over compliance.</p> <p><del>b. state that management has performed an evaluation of the entity’s compliance with specified requirements.</del></p> <p>c. state management’s interpretation of any compliance requirements that have varying interpretations.</p> <p><u><del>d. state that management has disclosed any known noncompliance occurring during or subsequent to the period covered by the practitioner’s report.</del></u></p>	<p><b>.A15 <del>.A17</del></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.</p>
<p><b>.17 <del>.18</del></b> In an examination of compliance, the practitioner should request from management the written representations required by section 205 and paragraph .16<del>-.17</del> of this section, even if the engaging party is not management.<sup>5</sup> <del>The alternative to obtaining the required written representations provided for in section 205 is not permitted in an engagement to examine compliance.</del><sup>6</sup><u>In this engagement, management’s refusal to furnish the written representations required by section 205 and paragraph .17 of this</u></p>	

<sup>4</sup> Paragraph .50~~-.51~~ of section 205.

<sup>5</sup> See footnote 4.

~~<sup>6</sup> Paragraph .51 of section 205~~

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<p>section 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 laws and regulations.<sup>7</sup></p>	
<p><b>Forming the Opinion</b></p> <p><b>.18 .19</b> In evaluating whether the entity has complied with the specified requirements, in all material respects, (or whether management’s assertion about its compliance with the specified requirements 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>Content of the Practitioner’s Examination Report</b></p> <p><b>.19 .20</b> The practitioner’s examination report on compliance should include the following, unless the practitioner is disclaiming an opinion, in which case, items .19.20g and .19.20h should be omitted. (Ref: par..A16-.A18-<del>A18</del>-<del>A20</del>)</p> <ul style="list-style-type: none"> <li>a. A title that includes the word <i>independent</i>.</li> <li>b. An appropriate addressee as required by the circumstances of the engagement.</li> </ul>	<p><b>Content of the Practitioner’s Examination Report (Ref: par. .19-.20.<del>20</del>-<del>21</del>)</b></p> <p><b>.A16 .A18</b> The list of elements in paragraph .19.20 constitutes all the required elements for a practitioner’s report on an examination of compliance with specified requirements, including the elements required by section 205<sup>9+2</sup> Application guidance regarding the elements of an examination report is included in section 205.<sup>10+3</sup></p>

<sup>7</sup>Paragraphs ~~.50~~, ~~54c55~~, and ~~A64~~ of section 205.

<sup>9+2</sup> Paragraphs ~~.62~~-.~~65~~~~63~~-~~66~~ of section 205.

<sup>10+3</sup> Paragraphs ~~A84~~-.~~A110~~-~~A78~~-.~~A101~~ of section 205

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<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. <del>.A21</del><del>.A21</del>)</p> <p>e. A statement that identifies</p> <ul style="list-style-type: none"> <li>i. management and its responsibility for compliance 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 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. (Ref: par. <del>.A19</del>)</li> <li>ii. those standards require that the practitioner plan and perform the examination to obtain reasonable assurance about whether                             <ul style="list-style-type: none"> <li>(1) the entity complied with the specified requirements, in all material respects, or</li> </ul> </li> </ul>	<p><del>.A17</del> <del>.A19</del> Examples 1 and 2 in the exhibit to this section provide illustrations of practitioner’s examination reports on compliance.</p> <p><del>.A18</del> <del>.A20</del> Item <del>.19</del><del>.20</del><i>d</i> represents the criteria for measuring or evaluating compliance with the specified requirements.</p> <p><u><i>Standards Under Which Engagement Was Performed (Ref: par. <del>.19</del><del>ff</del><del>i</del>)</i></u></p> <p><u><i>.A19 In identifying the standards under which the engagement was performed, the practitioner may specify the AT-C section under which the engagement was performed, for example, AT-C section 315, Compliance Attestation, of the attestation standards established by the American Institute of Certified Public Accountants.</i></u></p>

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<p>(2) management’s assertion about compliance with the specified requirements 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 with specified requirements.</p> <p><u>j. A statement that the practitioner is independent and has fulfilled the practitioner’s other ethical responsibilities in accordance with relevant ethical requirements related to the examination engagement</u></p> <p><u>kj.</u> The practitioner’s opinion about whether, in all material respects</p> <p>(1) the entity complied with the specified requirements or</p> <p>(2) management’s assertion about the entity’s compliance with specified requirements is fairly stated. (Ref: par. .A20)</p> <p><u>lk.</u> When the circumstances identified in section 205 are applicable, an alert in a separate paragraph that restricts the</p>	<p><u><b>Reasonable Basis for Assertion (Ref: par. .19k(2)</b></u></p> <p><u>.A20 Before the practitioner reports on management’s assertion, AT-C 205 requires the practitioner to use professional judgment in determining whether management has a reasonable basis for making its assertion.<sup>11</sup></u></p>

<sup>11</sup> Paragraph .60 of AT-C 205

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<p>use of the report or describes the purpose of the report, as applicable.<sup>88</sup></p> <p><del>m</del>. The manual or printed signature of the practitioner’s firm.</p> <p><del>n</del> The city and state where the practitioner practices.</p> <p><del>o</del>. 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> <ol style="list-style-type: none"> <li>i. the attestation documentation has been reviewed, and</li> <li>ii. management has provided <u>all necessary representations written assertion.</u>)</li> </ol>	
<p><del>.20</del> <del>.21</del> 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 report should identify the criteria. (Ref: par. .A21–.A23 <del>A21–.A23</del>)</p>	<p><del>.A19</del> <del>.A21</del> <del>.A21</del> 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>].”</p> <p><del>.A20</del> <del>.A22</del> <del>.A22</del> If a compliance requirement is to “maintain \$25,000 in capital,” it would not be necessary to identify the \$25,000 in the practitioner’s 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.</p> <p><del>.A21</del> <del>.A23</del> <del>.A23</del> When evaluating compliance with certain requirements requires interpretation of the laws, regulations, rules,</p>

<sup>88</sup> Paragraph ~~.6364e~~ of section 205.

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	<p>contracts, or grants that establish those requirements, the practitioner evaluates whether the criteria are suitable for evaluating compliance. If these interpretations are significant, 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="text-align: center;">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><b>Modified Opinions</b>  <b>.21 <del>.22</del></b> If the practitioner determines that there is material noncompliance, the practitioner’s report should describe the material noncompliance, and the opinion should be modified in accordance with section 205<sup>129</sup> (Ref: par. .A24–.A28:<del>.A24</del>–<del>.A28</del>)</p>	<p><b>Modified Opinions (Ref: par. .21<del>.22</del>)</b></p> <p><b><i>Qualified Opinion</i></b>  <del>.A22</del>.<del>A24</del> <del>.A24</del> 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. an opinion paragraph of a report containing the qualified opinion:</li> </ol> <p style="text-align: center;">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>

<sup>129</sup> Paragraphs ~~.67–.80~~:~~68~~–~~84~~ of section 205

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	<p>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 aforementioned requirements for the [<i>period</i>] ended [<i>date</i>].</p> <p><b><i>Adverse Opinion</i></b></p> <p><del>A23, A25</del> <del>A25</del> 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(s) giving rise to the adverse opinion, and</li> <li>b. an opinion paragraph of a report containing an adverse opinion:</li> </ol> <p>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>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><del>A24, A26</del> <del>A26</del> 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</p>

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	<p>compliance report may indicate that the noncompliance was considered during the audit.</p> <p><del>A25.A27</del> <del>A27</del> The following is an example of an additional sentence that may be included in the opinion paragraph of a practitioner’s 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><del>A26.A28</del> <del>A28</del> The practitioner also may include the preceding sentence when the two practitioner’s reports are not included in the same document.</p>
<p><b>Preconditions for an Agreed-Upon Procedures Engagement</b></p> <p><del>.22</del> <del>.23</del> 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 in sections 105 <del>and 215</del>, the practitioner should determine that <sup>1340</sup> <del>a.</del> management accepts responsibility for</p>	<p><b>Preconditions for an Agreed-Upon Procedures Engagement (Ref: par. <del>.22</del>.<del>23</del>)</b></p> <p><del>A27.A29</del> <del>A29</del> 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: 20px;">a. Identifying the specified requirements <u>and for the entity’s compliance with those requirements.</u></p>

<sup>1340</sup> Paragraphs .24–.28 of section 105 and paragraphs ~~.08-09~~ ~~.11~~ of section 215, *Agreed-Upon Procedures Engagements*.

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p>the entity's compliance with specified requirements and the entity's internal control over compliance. (Ref: par. <del>.A29.A29-.A30</del>)</p> <p><del>b. management evaluates the entity's compliance with specified requirements or the entity's internal control over compliance.</del></p>	<p>b. <del>Designing, implementing, Establishing</del> and maintaining internal control to provide reasonable assurance that the entity complies with those requirements</p> <p>e. <del>Evaluating and monitoring the entity's compliance</del></p> <p><u>cd.</u> Specifying reports that satisfy legal, regulatory, or contractual requirements</p> <p><del>.A30 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.</del></p>
<p><del>.23</del> <b>.24</b> The practitioner should obtain an understanding of the specified requirements. The practitioner's procedures to obtain that understanding should include the following:</p> <ul style="list-style-type: none"> <li>a. Consideration of laws, regulations, rules, contracts, and grants that pertain to the specified requirements, including published requirements</li> <li>b. Consideration of knowledge about the specified requirements obtained through prior engagements and regulatory reports</li> <li>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)</li> </ul>	

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p><b>Written Representations in an Agreed-Upon Procedures Engagement</b></p> <p><del>.24</del> <del>.25</del> In an agreed-upon procedures engagement, in addition to the written representations from management required by section 215, the practitioner should request written representations from management that<sup>1444</sup></p> <ul style="list-style-type: none"> <li><del>a. if not obtained as part of the agreed-upon terms of the engagement, acknowledge management’s responsibility for compliance with specified requirements,</del></li> <li><del>b. If not obtained as part of the agreed-upon terms of the engagement, acknowledge management’s responsibility for establishing and maintaining effective internal control over compliance.</del></li> <li><del>b. state that management has performed an evaluation of (i) the entity’s compliance with specified requirements or (ii) the entity’s controls for establishing and maintaining internal control over compliance and detecting noncompliance with requirements, as applicable.</del></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 <u>during or</u> subsequent to the period covered by the practitioner’s report.</li> </ul>	

<sup>1444</sup> Paragraph ~~.22-.23-.28~~ of section 215.

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p><b>Content of the Practitioner’s Agreed-Upon Procedures Report</b> <del>.24.25.26</del> The practitioner’s agreed-upon procedures report on compliance should include the following: (Ref: par. .A30–.A33.<del>A31–A34</del>)</p> <ul style="list-style-type: none"> <li>a. A title that <u>clearly indicates that the report is an agreed-upon procedures report and that</u> includes the word <i>independent</i>.</li> <li>b. An appropriate addressee as required by the circumstances of the engagement.</li> <li>c. <u>Identification of</u> <ul style="list-style-type: none"> <li><del>i.e. An indication that</del> the subject matter <u>to which the procedures have been applied, which in this</u>of the engagement is the entity’s compliance during a period or as of a point in time.</li> <li>ii. <u>the engaging party</u></li> <li>iii. <u>the intended purpose of the engagement in sufficient detail to enable the reader to understand the nature of the work performed, including</u> the specified requirements against which the entity’s compliance was measured or evaluated</li> </ul> </li> <li>d. <u>A statement that the agreed-upon procedures report may not be suitable for any other purpose.</u></li> <li><del>d. An identification of the specified requirements against which the entity’s compliance was measured or evaluated.</del></li> </ul>	<p><b>Content of the Practitioner’s Agreed-Upon Procedures Report (Ref: par..<del>25–26</del>)</b></p> <p><del>.A28.A30 .A31</del> The list of elements in paragraph <del>.25.26</del> of this section constitutes all the required elements for a practitioner’s report on the application of agreed-upon procedures related to an entity’s compliance with specified requirements, including the elements required by section 215.<sup>1416</sup> Application guidance regarding the elements of an agreed-upon procedures report is included in section 215.<sup>1745</sup></p> <p><del>.A29.A31 .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 practitioner’s 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 [name of entity]’s compliance with [identify the specified requirements] during the [period] ended [date] and [name of entity]’s internal control over compliance with the aforementioned compliance requirements as of [date].</p>

<sup>1416</sup> Paragraphs ~~.29–.32.35–36~~ of section 215.

<sup>1517</sup> Paragraphs ~~.A4235–.A59A43~~ of section 215.

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p><del>e.</del> <u>A description of the agreed-upon procedures engagement stating that</u></p> <p style="padding-left: 20px;"><del>i.</del> <u>an agreed-upon procedures engagement involves the practitioner performing the procedures that the engaging party has acknowledged to be appropriate for the purpose of the engagement, and reporting on findings based on the procedures performed; and</u></p> <p style="padding-left: 20px;"><del>ii.</del> <u>the engaging party has acknowledged that the procedures performed were appropriate for the intended purpose of the engagement</u></p> <p><del>e.</del> <u>An indication that management of the entity is responsible for the entity's compliance with the specified requirements.</u></p> <p><del>f.</del> <u>An identification of the specified parties.</u></p> <p><del>g.</del> <u>A statement that</u></p> <p style="padding-left: 20px;"><del>i.</del> <u>the sufficiency of the procedures is solely the responsibility of the parties specified in the report.</u></p> <p style="padding-left: 20px;"><del>ii.</del> <u>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.</u></p> <p><del>fh.</del> <u>A list of the procedures performed (or reference thereto) detailing the nature and extent of each procedure and related findings. (The practitioner should not provide a conclusion.)</u></p> <p><del>g.</del> <u>A description of the findings from each procedure performed, including sufficient details on exceptions found</u></p> <p><del>hi.</del> <u>When applicable, a description of any specified agreed-upon materiality limits.</u></p> <p><del>ij.</del> <u>A statement that</u></p>	<p><del>A30, A32, A33</del> 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;">We have been informed that, under [<i>name of entity</i>]'s interpretation of [<i>identify the compliance requirement</i>], [<i>explain the nature and source of the relevant interpretation.</i>]</p> <p><del>A31, A33, A34</del> Example 3 in the exhibit to this section provides an illustration of a practitioner's agreed upon procedures report related to compliance with specified requirements. Example 4 in the exhibit to this section provides an illustration of an agreed-upon procedures report related to internal control over compliance with specified requirements.</p>

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p>i. the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.</p> <p>ii. the practitioner was not engaged to and did not conduct an examination or <u>a limited assurance attestation engagement</u><del>review</del>, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with specified requirements (or internal control over compliance with specified requirements).</p> <p>iii. the practitioner does not express such an opinion or conclusion.</p> <p>iv. had the practitioner performed additional procedures, other matters might have come to the practitioner’s attention that would have been reported.</p> <p><u>j. A statement that the practitioner is independent and has fulfilled the practitioner’s other ethical responsibilities in accordance with relevant ethical requirements related to the agreed-upon procedures engagement</u></p> <p>k. <del>When applicable, A</del> description of the nature of the assistance provided by a practitioner’s external specialist, <u>if applicable.</u></p> <p>l. When applicable, <u>limitations on reservations or restrictions concerning</u> procedures or findings.</p> <p>m. <u>When the circumstances identified in section 215 are applicable, A</u>an alert, in a separate paragraph, that restricts the use of the report.<sup>15</sup> The alert should</p>	

<sup>15</sup> Paragraph .30 of AT-C 215.

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<p>i. state that the report is intended solely for the information and use of the specified parties,</p> <p>ii. identify the specified parties for whom use is intended, and</p> <p>iii. state that the report is not intended to be, and should not be, used by anyone other than the specified parties.</p> <p>n. When the engagement is also performed in accordance with <i>Government Auditing Standards</i>, the alert <del>that restricts the use of the report should include the following information, rather than the information</del> required by paragraph .25.26m <del>should not be used:</del></p> <p style="padding-left: 20px;"><del>i. A description of the purpose of the report</del></p> <p style="padding-left: 20px;"><del>ii. A statement indicating that the report is not suitable for any other purpose</del></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> <p>q. The date of the report. (The report should be dated no earlier than the date on which the practitioner completed the procedures and determined the findings, including that <del>the</del> <u>attestation documentation has been reviewed, and, if applicable, the written presentation of the subject matter has been prepared.</u></p> <p style="padding-left: 20px;"><del>ii. management has provided a written assertion, unless management refuses to provide an assertion).</del></p>	

~~A32, A34, A35~~

## **Exhibit—Illustrative Practitioner’s Examination and Agreed-Upon Procedures Reports Related to Compliance, and Agreed-Upon Procedures Report Related to Internal Control Over Compliance**

The illustrative practitioner’s examination reports in this exhibit (examples 1 and 2) meet the reporting requirements of section 205, *Examination Engagements*, and of paragraphs .19–.21. ~~20–22~~ of this section<sup>1</sup>. A practitioner may use alternative language in drafting an examination report, provided that the language meets the applicable requirements of section 205 and paragraphs .19–.21. ~~20–22~~ of this section.<sup>2</sup>

The illustrative practitioner’s agreed-upon procedures reports in this exhibit (examples 3 and 4) meet the applicable reporting requirements of section 215, *Agreed-Upon Procedures Engagements*, and paragraph .25. ~~26~~ of this section.<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 section 215 and paragraph .25. ~~26~~ of this section.<sup>4</sup>

### **Example 1: Practitioner’s Examination Report on Compliance; Unmodified Opinion**

The following is an illustrative practitioner’s 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]*

<sup>1</sup> Paragraphs ~~.59–.80.61–.84~~ of section 205.

<sup>2</sup> See footnote 1.

<sup>3</sup> Paragraphs ~~.26–.34.33–.41~~ of section 215.

<sup>4</sup> See footnote 3

We have examined XYZ Company's compliance with [*identify the specified requirements, for example, the requirements listed in Attachment I*] during the period January 1, 20X1, to December 31, 20X1. Management of XYZ Company is responsible for XYZ Company's compliance with the specified requirements. Our responsibility is to express an opinion on 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 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.

We are independent and have fulfilled our other ethical responsibilities in accordance with relevant ethical requirements related to the examination engagement.

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, for example, the requirements listed in Attachment I*] during the period January 1, 20X1 to December 231, 20X1.

[*Practitioner's signature*]

[*Practitioner's city and state*]

[*Date of practitioner's report*]

## Example 2: Practitioner's Examination Report on an Assertion About Compliance; Unmodified Opinion

The following is an illustrative practitioner's 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 report.

### Independent Accountant's Report

[*Appropriate Addressee*]

We have examined management of XYZ Company's assertion that XYZ Company complied with [*identify the specified requirements, for example, the requirements listed in Attachment I*] during the period January 1, 20X1 to December 31, 20X1.<sup>1</sup> XYZ Company's management is responsible for its assertion. 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 about compliance with the specified requirements 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 the specified requirements.

We are independent and have fulfilled our other ethical responsibilities in accordance with relevant ethical requirements related to the examination engagement.

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<sup>1</sup> If management's assertion accompanies the practitioner's report, the practitioner would refer to management's assertion by using the same title as management used for its assertion. The report also would use the same description of the specified requirements that management used in its assertion. If management's assertion is stated in the report, rather than accompanying the report, the word *accompanying* would be omitted.

In our opinion, management's assertion that XYZ Company complied with [*identify the specified requirements, 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: Practitioner’s Agreed-Upon Procedures Report Related to Compliance

The following is an illustrative practitioner’s 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]*

We have performed the procedures enumerated below, ~~which were agreed to by [identify the specified parties, for example, the management and board of directors of XYZ Company], related to XYZ Company’s compliance with [identify the specified requirements, for example, the requirements listed in Attachment I] during the period January 1, 20X1 to December 31, 20X1]~~<sup>1</sup> ~~Management of XYZ Company acknowledged that the procedures performed are appropriate for the purpose of [identify the intended purpose of the engagement].<sup>1</sup> Our report may not be suitable for any other purpose. XYZ Company’s management is responsible for its compliance with those requirements. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.~~

~~An agreed-upon procedures engagement involves our performing the procedures that management of XYZ Company has acknowledged to be appropriate for the purpose of [identify the intended purpose of the engagement] and reporting the findings based on the procedures performed.~~

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

This agreed-upon procedures engagement was conducted in accordance with attestation

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<sup>1</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...”

standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or limited assurance engagement~~review~~, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with specified requirements. 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.

We are independent and have fulfilled our other ethical responsibilities in accordance with relevant ethical requirements related to the agreed-upon procedures engagement.

*(Additional paragraph(s) may be added to describe other matters.)*

~~This report is intended solely for the information and use of [identify the specified parties, for example, the management and board of directors of XYZ Company] and is not intended to be, and should not be, used by anyone other than the specified parties.~~

*[Practitioner's signature]*

*[Practitioner's city and state]*

*[Date of practitioner's report]*

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

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

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

*[Appropriate Addressee]*

We have performed the procedures enumerated below, ~~which were agreed to by [identify the specified parties, for example, the management and board of directors of XYZ Company]~~, related to XYZ Company's internal control over compliance with *[identify the specified requirements for example, the requirements listed in Attachment 1]*, as of December 31, 20X1 Management of XYX

~~Company acknowledged that the procedures performed are appropriate for the purpose of [identify the intended purpose of engagement].<sup>1</sup> XYZ Company's management is responsible for its internal control over compliance with those requirements. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose. Our report may not be suitable for any other purpose.~~

~~An agreed-upon procedures engagement involves our performing the procedures management of XYZ Company has acknowledged to be appropriate for the purpose of [identify the intended purpose of the engagement] and reporting on findings based on the procedures performed.~~

*[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 limited assurance engagement review, the objective of which would be the expression of an opinion or conclusion, respectively, on internal control over compliance with specified requirements. 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.

~~We are independent and have fulfilled our other ethical responsibilities in accordance with relevant ethical requirements related to the agreed-upon procedures engagement.~~

~~*(Additional paragraph(s) may be added to describe other matters.)*~~

~~This report is intended solely for the information and use of [identify the specified parties, for example, the management and board of directors of XYZ Company] and is not intended to be, and should not be, used by anyone other than the specified parties.~~

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<sup>1</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 documents] and enumerated below..."

*[Practitioner's signature]*

*[Practitioner's city and state]*

*[Date of practitioner's report]*