

Center for Plain English Accounting

AICPA's National A&A Resource Center

Agreed-Upon Procedures Engagements & Consulting Engagements **What's The Difference?**

By: *CPEA Staff*

A common question we continue to receive from our members relates to the difference between an agreed-upon procedures engagement and a consulting engagement. This report will cover the differences and basic requirements for both types of engagements and address common situations that typically fit into each type of engagement. This report was originally issued in 2017 and we have updated its content to reflect recent standard setting activity. A review of peer review findings indicates that some firms do incur Matters for Further Consideration (MFCs) from peer reviewers related to distinguishing between an agreed-upon procedures engagement and a consulting engagement, as the following example MFC indicates:

Illustrative Peer Review Matter for Further Consideration

The firm was directed and performed services on specific elements of internal control. The firm couldn't delineate if such services were AUP or consulting. As these procedures were "agreed upon" between the firm and the client; the firm should have followed the guidance as directed in AT 215. The "report" issued by the firm used specific terminology (i.e., "audit", "opinion") that could indicate that certain services were provided, when in fact they weren't. Further, such report did not follow any guidelines prescribed by the AICPA; notwithstanding that such report specifically indicated that the services were performed in accordance with the AICPA standards. The firm's response as to why such report and engagement letter was used for the engagement was that the firm utilized a report similar to that issued by the predecessor, as requested by the client.



Agreed-Upon Procedures Engagement

Agreed-upon procedures engagements are governed by the AICPA's Statements on Standards for Attestation Engagements (SSAE), primarily in AT-C 215, *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement is an attestation engagement in which a practitioner performs specific agreed-upon procedures on subject matter and reports the findings without providing an opinion or conclusion. As a result, the practitioner does not obtain any levels of assurance and, therefore, does not provide an opinion or a conclusion such as those provided in an examination or a review engagement.

Practice Note: When conducting an agreed-upon procedures engagement under AT-C 215, the practitioner's responsibilities also encompass the requirements and guidance in AT-C 105 *Concepts Common to All Attestation Engagements*.

Preconditions

AT-C 105 and AT-C 215.10 indicate that a practitioner must be independent when performing an attestation engagement in accordance with the attestation standards, unless the practitioner is required by law or regulation to accept the engagement and report on the subject matter. When the practitioner is not independent but is required by law or regulation to accept an agreed-upon procedures engagement and report on the procedures performed and findings obtained, the practitioner's report should specifically indicate that the practitioner is not independent. The practitioner is neither required to provide, nor precluded from providing, the reasons for the lack of independence; however, if the practitioner chooses to provide the reasons for the lack of independence, the practitioner should include all the reasons therefor. Additional preconditions, discussed in AT-C 105.29 and related application paragraphs, that are necessary for an agreed-upon procedures engagements include:

- *The responsible party (i.e., not the practitioner) acknowledges its responsibility for the subject matter.* The responsible party's responsibility for the subject matter can be acknowledged in various ways, including an engagement letter, a representation letter, the presentation of the subject matter, a written assertion, or reference to legislation, a regulation, or a contract.
- *The subject matter is appropriate.* Subject matter is appropriate if it (1) is identifiable and capable of consistent measurement or evaluation against the criteria, and (2) can be subjected to procedures for obtaining sufficient appropriate evidence to support the findings in the practitioner's report. The responsible party is responsible for having a reasonable basis for measuring or evaluating the subject matter.

- *The evidence needed to arrive at the practitioner's findings is expected to be available.* The availability of the evidence needed includes: (1) access to all information that is relevant to the measurement, evaluation, or disclosure of the subject matter (e.g., records, documentation, explanations, and other matters); (2) access to additional information that the practitioner may request; and (3) unrestricted access to persons within the appropriate party from whom the practitioner determines it necessary to obtain evidence.
- A written practitioner's report will contain, in appropriate form, the practitioner's findings.

In addition to the preconditions set forth in AT-C 105, AT-C 215.11-.12 further require that the practitioner determine that the following conditions are present for an agreed-upon procedures engagement:

- The procedures can be designed, performed, and reported on in accordance with AT-C 215.
- The engaging party agrees, or will be able to agree, to the procedures and acknowledges that the procedures are appropriate for the intended purpose of the engagement.
- The procedures to be applied to the subject matter are expected to result in reasonably consistent findings.
- When applicable, the practitioner agrees to apply a threshold for reporting exceptions established by the engaging party.
- The practitioner establishes an understanding with the engaging party regarding the nature of the engagement, including the following:
 - a. The intended purpose of the engagement and the intended users of the agreed-upon procedures report
 - b. Whether the practitioner's agreed-upon procedures report is expected to be restricted to the use of specified parties
 - c. Whether the engagement to be performed is pursuant to any law, regulation, or contract
 - d. Whether parties in addition to the engaging party will be requested to agree to the procedures and acknowledge that the procedures performed are appropriate for their purposes

A practitioner is precluded from accepting an agreed-upon procedures engagement if the practitioner believes the intended purpose of the engagement is not clear or the engaging party will not have a basis for agreeing and acknowledging that the procedures are appropriate for the intended purpose of the engagement.

Types of Procedures

In an agreed-upon engagement, the practitioner should perform procedures agreed to and acknowledged by the engaging party to meet the intended purpose of the engagement established with the engaging party. The practitioner should not perform procedures that are open to varying interpretations or that use vague or ambiguous language. Terms of uncertain meaning (such as *general review*, *limited review*, *check*, or *test*) should not be used in describing the procedures unless such terms are defined within the procedures.

Practice Note: Certain procedures might be overly subjective and vague and, therefore, cannot be the basis for the agreed-upon procedures engagement. For example, mere reading of an assertion or the subject matter information, mere reading of the work performed by others (e.g., specialists or internal auditors) solely to describe their findings, or interpreting documents, that are not within the scope of the practitioner's professional expertise, are not appropriate for an agreed-upon procedures engagement. On the other hand, appropriate procedures might include confirming specific information with third parties; comparing documents, schedules, or analyses with certain specified attributes; or performing mathematical computations.

Presented below are peer review MFCs that some firms incurred related to the nature of the agreed-upon procedures:

Illustrative Peer Review Matter for Further Consideration

Although most of the engagement was appropriate, some of the procedures performed appear to be subjective and open to varying interpretations, and therefore, would not meet the criteria for an AUP engagement.



Illustrative Peer Review Matter for Further Consideration

Some of the agreed upon procedures are subjective, broad, and include vague terms such as "made inquiries to determine if disbursement and payroll procedures are in line with the Church's policies" and "made inquiries and commented on internal control procedures for revenues and expenditures" with the results of the procedures simply stated as "we found no exceptions as a result of this procedure".



Illustrative Peer Review Matter for Further Consideration

The firm agreed to perform procedures that were overly subjective and thus possibly open to varying interpretations. Professional standards state that terms of uncertain meaning should not be used. The agreed upon procedure stated that the firm would "determine the reasonableness" of certain transactions.



Written Report Required

The practitioner's agreed-upon procedures report should be in writing and explicitly present the results of the procedures applied to specific subject matter in the form of findings. In presenting these findings, the practitioner should:

- Report all findings from the application of agreed-upon procedures. If the engaging party has established a threshold for reporting exceptions, the practitioner should describe such threshold in the practitioner's report. For example: "For purposes of performing these procedures, no exceptions were reported for differences of \$1,500 or less resulting solely from the rounding of amounts disclosed." (AT-C 215.25, A37)
- Avoid vague or ambiguous reporting language when presenting the findings (AT-C 215.17).
- Prepare the report in the form of procedures and findings, without expressing an opinion or a conclusion about whether the subject matter is in accordance with (or based on) the criteria or whether the assertion is fairly stated. For example, the report should not indicate: "Nothing came to our attention that caused us to believe that the subject matter is not in accordance with (or based on) the criteria, in all material respects." (AT-215.32, A36)

A complete list of the requirements of the practitioner's report are set forth in AT-C 215.34.

While a restricted use alert is not required, AT-C 215.35 indicates "the practitioner should consider whether to include an alert, in a separate paragraph, that restricts the use of the practitioner's agreed-upon procedures report, taking into account the understanding with the engaging party regarding the nature of the engagement." If the practitioner wishes to include an alert, those requirements are discussed in AT-C 215 beginning with paragraph .36.

Consulting Services Engagement

Most practitioners, including those who provide audit and tax services, also provide business and management consulting services to their clients. Consulting services differ fundamentally from the function of attesting to whether something is measured or evaluated in accordance with specified criteria. In a consulting service, the practitioner develops the findings, conclusions, and recommendations presented. The nature and scope of work is determined solely by the agreement between the practitioner and the client and, generally, the work is performed only for the use and benefit of the client.

Statement on Standards for Consulting Services (SSCS) 1, *Statements on Standards for Consulting Services*, codified as CS 100, defines consulting services as “professional services that employ the practitioner's technical skills, education, observations, experiences, and knowledge of the consulting process.” Accordingly, consulting services may include any of the following:

- Consultations—providing counsel in a short time frame, based on existing personal knowledge about the client, the circumstances, the technical matters involved, client representations, and the mutual intent of the parties. Examples include reviewing and commenting on a client-prepared business plan and suggesting computer software for further client investigation.
- Advisory services—developing findings, conclusions, and recommendations for client consideration and decision making, for example, an operational review and improvement study, analysis of an accounting system, assistance with strategic planning, or definition of requirements for an information system.
- Implementation services—putting an action plan into effect, where the practitioner is responsible to the client for the conduct and management of engagement activities. Examples include providing computer system installation and support, executing steps to improve productivity, and assisting with the merger of organizations.
- Transaction services—providing services related to a specific client transaction, generally with a third party, for example insolvency services, valuation services, preparation of information for obtaining financing, analysis of a potential merger or acquisition, or litigation services.
- Staff and other support services—providing appropriate staff and possibly other support to perform tasks specified by the client, for example, data processing facilities management, computer programming, bankruptcy trusteeship, or controllership activities.
- Product services—providing the client with a product and associated professional services in support of the installation, use, or maintenance of the product. Examples include the sale and delivery of packaged training programs, the sale

and implementation of computer software, and the sale and installation of systems development methodologies.

According to CS 100, the definition of consulting services specifically excludes the following:

- Services subject to other AICPA professional standards such as Statements on Auditing Standards, Statements on Standards for Attestation Engagements, or Statements on Standards for Accounting and Review Services
- Engagements specifically to perform tax return preparation, tax planning or advice, tax representation, personal financial planning or bookkeeping services
- Situations involving the preparation of written reports or the provision of oral advice on the application of accounting principles to specified transactions or events, either completed or proposed, and the associated reporting
- Recommendations and comments prepared during the same engagement as a direct result of observations made while performing the excluded services

The basic requirements embodied in CS 100 are relatively brief and are essentially the same as the general requirements set forth in the AICPA Code of Professional Conduct, which apply to all professional engagements. These requirements include (1) competency, integrity, objectivity, and due professional care (2) sufficient relevant data to afford reasonable support for any conclusions or recommendations, and (3) adequate planning and supervision.

What's the Difference?

The difference between an agreed-upon procedures engagement and a consulting engagement is often a source of confusion for accountants. Consulting services differ fundamentally from attest services—an agreed-upon procedures engagement involves the practitioner applying procedures to the subject matter of the engagement and reporting the findings. The engaging party and intended users assess for themselves the procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner. A consulting engagement, on the other hand, is usually conducted for the primary benefit of the client and need not result in a written report.

Practice Note: There might be third-party users for some consulting services, and there might not be any identifiable third-party users for some agreed-upon procedures engagements. In other words, the existence of a third-party user or lack thereof is not the sole determinant in deciding if a service should be structured as an agreed-upon procedures engagement or a consulting engagement. As indicated in AT-C 215.34, for agreed-upon procedures engagements, the practitioner's report should include identification of the engaging party and the responsible party.

As indicated in AT-C 105.A42, all attestation engagements have an engaging party (hires the practitioner), a responsible party, the practitioner, and intended users. In some attestation engagements, the engaging party is different from the responsible party (often the engaging and the responsible party are the same). In other attestation engagements, the engaging party, the responsible party, and the intended users may all be the same. The engaging party, depending on the circumstances, may be management or those charged with governance of the responsible party, a governmental body or agency, the intended users, or another third party (AT-C 215.A19). The responsible party is the party responsible for the underlying subject matter, which is a party other than the practitioner.

In a consulting engagement, the procedures and findings or recommendations are usually those of the practitioner. Typically, the assumptions are developed based on the practitioner's own expertise, research, and analysis.

Another important distinction between agreed-upon procedures engagements and consulting engagements is that independence is required for all attest services, including agreed-upon procedures engagements. The practitioner need not be independent to perform a consulting engagement, although objectivity is required.

Practice Note: Keep in mind that, although independence is not required to perform consulting services, the performance of these services may impair the practitioner's independence. However, the performance of consulting services for an attest client would not impair independence as long as the requirements of the "Scope and Applicability of Nonattest Services" interpretation under the "Independence Rule" in the revised AICPA Code of Professional Conduct are followed. Provided management accepts responsibility and has the skills, knowledge, and experience to understand and take responsibility for the consulting services, practitioners should be able to provide these services without impairing independence.

Based on these differences, there may be circumstances where it is either necessary or preferable to structure an engagement as a consulting service, rather than an agreed-upon procedures engagement, as the following examples illustrate.

- If the practitioner is not independent, an agreed-upon procedures engagement cannot be performed (unless required by law or regulation)
- If there is no responsible party, other than the practitioner, who is able to take responsibility for the subject matter
- If the engaging party is unable or unwilling to acknowledge that the procedures are appropriate for the intended purpose of the engagement
- If the client is more interested in the practitioner's analysis and recommendations about the subject matter, rather than specific procedures applied to the subject matter, a consulting engagement may be the appropriate service

Practice Note: As part of the analysis supporting a conclusion and recommendation, a practitioner might incidentally evaluate certain subject matter or written assertions of another party. This would not require that the services be structured as an attest service.

The following exhibit summarizes some of the key differences between an agreed-upon procedures engagement and a consulting engagement.

Element	Agreed-Up-On Procedures Engagement	Consulting Engagement
Authoritative Guidance	AT-C 215; AT-C 105; other AT sections, as applicable.	CS 100.
Objective	Applying to subject matter procedures that the engaging party acknowledges are appropriate for the intended purpose of the engagement prior to issuance of the practitioner's agreed-upon procedures report.	Developing findings, conclusions, and recommendations for the client.
Written representations	Required.	Not applicable.
Parties involved	Practitioner, engaging party, responsible party, and specified users.	Practitioner and client.
Engagement letter	Must agree on the terms of the engagement with the engaging party and document such agreement through a written communication (i.e., an engagement letter or other suitable form of written agreement) that is signed by both the practitioner and the responsible party.	Not required.

	A verbal understanding is not sufficient.	
Report	Written report required.	No report required but may be issued.
Report content	Description of the procedures applied and the practitioner's findings.	No requirement, but may include procedures, methodologies, analyses, findings, conclusions, or recommendations.
Report restriction	Report may be restricted to specified parties.	Report, if issued, may be restricted to specified parties.
Independence	Required.	Not required.

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