Agreed-upon procedures and compilations

MODULE 5 | 5.6 | STUDENT COMPANION

Agreed-upon procedures report **factual findings**, with no opinion and no assurance, so every finding must be worded objectively; **comfort letters** work the same way. **Compilations** use accounting expertise to help management prepare information, also without assurance, and the practitioner considers withdrawing if wrong information isn't fixed. Across audits, reviews and these services, assurance falls from **reasonable**, to **limited**, to **none**.

Agreed-upon procedures

The practitioner performs procedures agreed with the engaging party and reports what it found. Users draw their own conclusions, so the engaging party must acknowledge that the procedures suit its purpose. Lenders, grant agencies and franchisors all use them. The international standard, ISRS 4400 (Revised), applies to engagements agreed from 1 January 2022; Australia's ASRS 4400, issued on 11 December 2020, applies from the same date.

Key requirements. Judgement still matters when agreeing the terms and procedures, but each procedure must be capable of objective description, so different practitioners would reach the same findings. Under the international standard the practitioner needn't be independent unless the terms or the law require it (the report says whether it is), and the report needn't be restricted. **Australia goes further:** ASRS 4400 restricts the report's use to the intended users it identifies, and the report states that the practitioner complied with the principle of objectivity.

Wording the findings: Keyline Escape Rooms

Keyline Escape Rooms (imagined)

40 franchisees, each paying a royalty of 7% of their bookings. Agreed procedures at ten stores each quarter:

1. Compare reported bookings with the booking system
2. Compare booking system totals with amounts banked
3. Recalculate the royalty
4. List every difference

Avoid	Write
Vague descriptions 'Tested', 'analysed' or 'examined', without saying exactly what was done	**A clear finding** 'We compared the bookings reported for March with the store's booking system. Reported bookings were $48,200 and the booking system showed $51,700, a difference of $3,500.'
Words that sound like assurance 'Audit', 'review', 'verify' or 'present fairly'	

No opinion: whether the royalties are right, and what to do, is Keyline's judgement

Comfort letters

When a company issues shares or debt to the public, the lead managers and underwriters must show they made reasonable inquiries about the offer document, so they often ask the company's auditor for a comfort letter. Under ASRS 4450 Comfort Letter Engagements (issued 30 May 2012, effective 1 July 2013), the auditor reports factual findings, not assurance, from procedures such as agreeing figures in the offer document with the accounting records and recalculating ratios. The letter goes only to the board and the requesting parties, such as underwriters, who sign the engagement letter, and its wording is negotiated so it never implies more comfort than the work supports.

Compilation engagements

- **Accounting, not auditing, expertise:** helping management prepare and present financial information, such as a small business's annual statements, under the framework it has chosen. APES 315 governs the work in Australia, alongside ISRS 4410 (Revised).
- **No verification, no assurance, but not just a typist:** the practitioner understands the business and the framework, reads the information for obvious errors, and asks management to correct records it finds incomplete, inaccurate or misleading.
- **If management refuses:** the international standard requires the practitioner to withdraw; APES 315 requires it to decide, under its firm's policies, whether it can keep acting.
- **Has anyone checked compiled statements?** Not in the assurance sense: management stays responsible, and the report says no audit or review was performed and no opinion is expressed. A reader who needs assurance needs a review or an audit.

A compilation, step by step

Harrowgate Shoe Repairs (imagined): the owner needs financial statements for a bank loan

1. Agree the terms and the framework
2. Gather the owner's records
3. Prepare the statements
4. Read them for anything obviously wrong
5. Raise problems with the owner
6. Owner approves; report issued

At Harrowgate

- **Noticed:** no depreciation on the expensive stitching machines bought last year, and cash takings for two months far below the rest of the year
- **Raised with the owner,** who adds the depreciation and finds a missing bundle of cash records, then approves the corrected statements and takes responsibility for them

if refused

If the owner won't fix something material

Consider withdrawing, rather than let your name appear on misleading statements

ISRS 4410 requires withdrawal; APES 315 requires a decision, under the firm's policies, on whether to keep acting

Management stays responsible; the report says no audit or review was done and no opinion is given

Four services side by side

	Audit	Review	Agreed-upon procedures	Compilation
Assurance	**Reasonable**	**Limited**	**None**	**None**
The report gives	A positive opinion	A negatively worded conclusion: nothing suggests the information is materially misstated	Factual findings from procedures agreed with the engaging party	A statement that the practitioner helped prepare the information; no audit or review, no opinion
The user	Relies on the auditor's opinion	Relies on a more limited conclusion	Draws their own conclusions, having accepted the procedures suit their purpose	Judges the information for themselves

Assurance falls: reasonable, limited, none

The less assurance an engagement gives, the more the user must judge for themselves

Practice questions

MODULE 5 | 5.6 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Fix the wording

Say what's wrong with each draft finding, then rewrite it objectively.

Draft statement, and the work actually done	What's wrong, and your objective rewrite
(1) 'We reviewed the grant spending and it appears reasonable.' Done: agreed the 46 grant payments over $1,000 to supplier invoices; 3 payments, totalling $4,850, had no invoice.	
(2) 'We verified the interest cover calculation.' Done: recalculated it from the June 2026 management accounts, as clause 14 of the facility defines it: 2.6 times, as the borrower reported.	
(3) 'We tested the stock count sheets and they were mostly accurate.' Done: counted 30 items from the sheets; 27 agreed and 3 differed by a total of 14 units.	
(4) 'In our opinion, the Ballarat store's royalty presents fairly the amount due.' Done: 7% of April bookings in its booking system ($63,000) is $4,410; $4,410 was paid.	
(5) 'We analysed the payroll and nothing came to our attention.' Done: compared 25 employees' June pay rates with their contracts; 24 agreed, one was $1.20 an hour higher.	
(6) 'The franchisee appears to have deliberately understated its sales.' Done: compared May sales reported to the franchisor ($82,000) with the point-of-sale report ($91,300).	

Question 2 - Findings for four Keyline stores

The agreed procedures for Keyline's June quarter are: (1) compare the bookings each store reported to Keyline with its booking system total; (2) compare the booking system total with the amount banked; (3) recalculate the royalty as 7% of the booking system total and compare it with the royalty paid. List every difference. Prepare the factual findings for these four stores.

Store (June quarter)	Bookings reported to Keyline	Booking system total	Amount banked	Royalty paid
Bendigo	$72,400	$72,400	$72,400	$5,068
Cairns	$58,900	$62,300	$62,300	$4,123
Launceston	$41,750	$41,750	$39,950	$2,922.50
Wollongong	$66,200	$69,800	$67,100	$4,634

Procedure	Your factual findings
(1)	
(2)	
(3)	

Question 3 - Leaving out a loan

The owner of Harrowgate Shoe Repairs tells the practitioner that the owner's sister lent the business $30,000 last year, interest-free and repayable on demand, and asks for the loan to be left out of the financial statements 'because the bank might not like it'. What should the practitioner do?

Worked answers

MODULE 5 | 5.6 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Fix the wording (suggested)

	What's wrong	Objective rewrite
(1)	'Reviewed' sounds like a review engagement and doesn't say what was done; 'appears reasonable' is a conclusion	We agreed each of the 46 payments over $1,000 in the grant ledger to a supplier invoice. For 3 payments, totalling $4,850, no invoice was provided.
(2)	'Verified' is assurance language, and no finding is given	We recalculated the interest cover ratio from the management accounts for the year ended 30 June 2026, as defined in clause 14 of the facility agreement. Our result was 2.6 times, the same as the figure in the borrower's covenant certificate.
(3)	'Tested' is vague; 'mostly accurate' is a judgement	We counted 30 items selected from the count sheets. For 27 items our counts agreed with the count sheets; for 3 items they differed, by a total of 14 units.
(4)	'In our opinion' and 'presents fairly' are audit language	We recalculated the royalty for the Ballarat store as 7% of the bookings in its booking system for April ($63,000), giving $4,410. The royalty paid was $4,410.
(5)	'Analysed' is vague; 'nothing came to our attention' sounds like a review's limited assurance	We compared the hourly rate of each of 25 employees in the June pay register with the rate in their employment contract. For 24 the rates agreed; for one, the register rate was $1.20 an hour higher.
(6)	It speculates about intent and gives no procedure or numbers	We compared the sales reported to the franchisor for May ($82,000) with the point-of-sale system report for May ($91,300). Reported sales were $9,300 lower.

Question 2 - Factual findings

Each finding states the procedure, the amounts and the difference, with no comment on why.

Procedure	Findings
(1) Reported bookings and the booking system	Bendigo: reported $72,400, booking system $72,400, no difference; Cairns: reported $58,900, booking system $62,300, a difference of $3,400; Launceston: reported $41,750, booking system $41,750, no difference; Wollongong: reported $66,200, booking system $69,800, a difference of $3,600.
(2) Booking system and amounts banked	Bendigo: booking system $72,400, banked $72,400, no difference; Cairns: booking system $62,300, banked $62,300, no difference; Launceston: booking system $41,750, banked $39,950, a difference of $1,800; Wollongong: booking system $69,800, banked $67,100, a difference of $2,700.
(3) Royalty recalculated at 7% of the booking system total	Bendigo: recalculated $5,068, paid $5,068, no difference; Cairns: recalculated $4,361, paid $4,123, a difference of $238; Launceston: recalculated $2,922.50, paid $2,922.50, no difference; Wollongong: recalculated $4,886, paid $4,634, a difference of $252.

What the findings don't say: whether Cairns and Wollongong under-reported deliberately, or why Launceston and Wollongong banked less than their booking systems show. Keyline draws those conclusions, perhaps by recovering the $238 and $252 of royalties and looking more closely at those stores.

Question 3 - The loan from the owner's sister (sample answer)

- **Explain why it can't be left out.** The loan is a real liability. Repayable on demand, it is a current liability, and as a loan from a relative it may also need disclosing under the framework. Without it the statements are incomplete and misleading, especially to the bank they are meant for.
- **Ask the owner to include it,** with any disclosures the framework requires.
- **If the owner still refuses,** the practitioner can't issue a compilation report on statements it knows are misleading. Under APES 315 it decides, under its firm's policies, whether it can keep acting; with a material omission aimed at a lender, withdrawing is the likely outcome. The international standard would require withdrawal.
- **Integrity and confidentiality.** The Code of Ethics forbids being knowingly associated with misleading information. Confidentiality still applies, so the practitioner doesn't tell the bank unless the law requires it; it documents the discussion and considers legal advice.