

Update on Guidance Regarding Oklahoma Statutory Agreed-Upon Procedures Engagements

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Background of Oklahoma Statutory Agreed-Upon Procedures Engagements

In 2005, Oklahoma Statutes §11-17.105-.107 and §60-180.1-.3 (the Oklahoma laws) were enacted to provide an alternative to a full-scope financial statement audit for small Oklahoma municipalities. The intent of the Oklahoma laws was to provide an agreed-upon procedures (AUP) engagement alternative to qualifying municipalities and their related public trusts if a financial statement audit was not otherwise required. The legislation indicates that an agreed-upon procedures engagement, performed subject to their requirements, must be conducted in accordance with the statements on standards for attestation engagements (SSAE) of the American Institute of Certified Public Accountants (AICPA) and the fieldwork and reporting standards of *Government Auditing Standards* (GAGAS) of the Government Accountability Office (GAO). The language in the Oklahoma laws intentionally omitted the GAGAS general standards from its requirements because the intent of the legislation was that practitioner need not meet the GAGAS general standards applicable to attestation engagements that are different than those of the AICPA, including those in the areas of CPE and system peer reviews, to be qualified to perform agreed-upon procedures engagements under the Oklahoma laws. However, the GAGAS additional attestation engagement *fieldwork and reporting standards* that are supplemental to the requirements in the AICPA SSAE AUP engagement standards were made applicable to an agreed-upon procedures engagement performed under the Oklahoma laws.

Engagement Questions Raised

Since the time the Oklahoma laws were enacted and the AUP engagements undertaken, certain questions have arisen in regards to these engagements as to the (1) type of engagement performed, (2) the wording of the accountant's report, and (3) applicability of AICPA peer review requirements to those engagements. Specifically, the questions included:

1. Are the AUP engagements performed pursuant to the Oklahoma laws (incorporating only the fieldwork and reporting standards of GAGAS) considered engagements performed in accordance with *Government Auditing Standards*?
2. Should the scope paragraph of accountant's report indicate that the engagement was performed in accordance with "the fieldwork and reporting standards of *Government Auditing Standards*," qualify its GAGAS compliance language, or omit any reference to GAGAS?
3. Because AICPA Statement on Quality Control Standards No. 7 (SQCS 7), paragraph 103 states that "Engagement reviews are available only to firms that do not perform engagements under the SASs, *Government Auditing Standards*, examinations of prospective financial statements under the SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB", if a firm

performs only agreed upon procedures attestation (AUP) engagements pursuant to these Oklahoma laws and performs no other engagements as defined in SQCS 7, par. 103, may the firm meet its AICPA peer review requirements with an engagement review rather than a system review?

Consultation with AICPA and GAO

In January 2009, representatives of the AICPA Peer Review Program, the GAO, and Crawford & Associates – Oklahoma City held a conference call to discuss these specific questions regarding the AUP engagements performed pursuant to the Oklahoma laws. As a result of the conference call, the following conclusions were reached.

The GAO's position is that the Oklahoma legislation requiring the AUP engagements to be done in accordance with the fieldwork and reporting standards of GAGAS results in the performance of engagements that do not constitute engagements conducted in accordance with *Government Auditing Standards*. In addition, GAO suggested that the accountant's report on such AUP engagements performed pursuant to the Oklahoma laws either (1) not cite compliance with GAGAS, or (2) cite compliance with GAGAS but disclose the limitations in regards to the standards not followed (i.e. the general standards). GAO staff indicated their preference would be the first of the two alternatives where the accountant's report would cite compliance with AICPA attestation standards, and perhaps the requirements of the specific Oklahoma laws, but make no reference to compliance with *Government Auditing Standards*.

The representatives from the AICPA Peer Review Program indicated that peer reviewers conducting peer reviews of firms that have performed AUP engagements pursuant to these Oklahoma laws take into consideration that practitioners had been previously advised to report on such engagements by referencing the GAGAS fieldwork and reporting standards, assist in educating the reviewed firms as to the revised reporting guidance, and provide sufficient time for this revised guidance to be communicated and implemented.

Specific Guidance

Based on the general guidance provided by the GAO and the conclusions reached as a result of the conference call, the following specific guidance is offered to practitioners and peer reviewers:

1. *Question:* Are the AUP engagements performed pursuant to the Oklahoma laws (incorporating only the fieldwork and reporting standards of GAGAS) considered engagements performed in accordance with *Government Auditing Standards*?

Answer: No. The GAO has indicated that because these engagements are not designed to comply with all the applicable GAGAS standards, including the general standards, these AUP engagements are not considered engagements performed in accordance with *Government Auditing Standards*.

2. *Question:* Should the scope paragraph of accountant’s report indicate that the AUP engagement was performed in accordance with “the fieldwork and reporting standards of Government Auditing Standards,” qualify its GAGAS compliance language, or omit any reference to GAGAS?

Answer: The GAO has indicated that the accountant’s report on such AUP engagements performed pursuant to the Oklahoma laws should either (1) not cite compliance with GAGAS, or (2) cite compliance with GAGAS but disclose the limitations in regards to the standards not followed (i.e. the general standards). GAO staff indicated that their preference is the first of the two alternatives where the accountant’s report would cite compliance with AICPA attestation standards, and perhaps the requirements of the specific Oklahoma laws, but make no reference to compliance with *Government Auditing Standards*. The accountant’s report should no longer report compliance with the GAGAS fieldwork and reporting standards. See the section below titled, *Reporting Guidance for Practitioners - Subsequent to GAO Consultation*, for suggested revised wording of the scope paragraph of the accountant’s report based on the GAO guidance.

3. *Question:* Because AICPA Statement on Quality Control Standards No. 7 (SQCS 7), paragraph 103 states that “Engagement reviews are available only to firms that do not perform engagements under the SASs, *Government Auditing Standards*, examinations of prospective financial statements under the SSAEs, or audits of non-SEC issuers performed pursuant to the standards of the PCAOB”, if a firm performs only agreed upon procedures attestation (AUP) engagements pursuant to these Oklahoma laws and performs no other engagements as defined in SQCS 7, par. 103, may the firm meet its AICPA peer review requirements with an engagement review rather than a system review?

Answer: Yes. As noted in the answer to question 1 above, these AUP engagements performed pursuant to the Oklahoma laws are not considered engagements performed in accordance with *Government Auditing Standards*. Therefore, if a firm performs only agreed upon procedures attestation (AUP) engagements pursuant to these Oklahoma laws and performs no other engagements as defined in SQCS 7, par. 103, the firm may meet its AICPA peer review requirements with an engagement review rather than a system review.

Reporting Guidance Provided to Practitioner’s - Prior to GAO Consultation

At the time of the effective date of the Oklahoma laws, practitioner’s were advised through various training sessions and in training materials to include the following wording in the scope paragraph of the accountant’s report on apply agreed-upon procedures:

“We have performed the procedures enumerated below which were agreed to by the specified users of the report, as identified above, and as defined within the applicable state laws of the State of Oklahoma solely to assist the Town and Public Works Authority in meeting its financial

accountability requirements as prescribed by Oklahoma Statutes §11-17 (105-107) and §60-180.1-.3 and evaluating compliance with specified legal or contractual requirements for the fiscal year ended June 30, 200X. Management of the Town of Example is responsible for the Town's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.”

Based on the guidance from the GAO, practitioner's are advised to no longer report on the AUP engagements performed pursuant to Oklahoma Statutes §11-17 (105-107) and §60-180.1-.3 with the above noted wording.

Reporting Guidance for Practitioners - Subsequent to GAO Consultation

Practitioner's are now advised to include the following wording in the scope paragraph of the accountant's report on apply agreed-upon procedures pursuant to 11 O.S. Section 105-107 and 60 O.S. Section 180.1-.3:

“We have performed the procedures enumerated below which were agreed to by the specified users of the report, as identified above, and as defined within the applicable state laws of the State of Oklahoma solely to assist the Town and Public Works Authority in meeting its financial accountability requirements as prescribed by applicable Oklahoma law and evaluating compliance with specified legal or contractual requirements for the fiscal year ended June 30, 200X. Management of the Town of Example is responsible for the Town's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the additional requirements prescribed in Oklahoma Statutes §11-17.105-.107 and §60-180.1-.3. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.”