



## **Agreed-Upon Procedures (AUP): Summary, Guidance, and FAQ**

Agreed-Upon Procedures engagements (AUP) are an alternative for local governments who meet the audit exemption criteria **AND CHOOSE** the exemptions. Local governments may always choose to submit an audit report as their annual filing.

Exemption from audit may apply if the entity: ([ORS 297.425](#))

- is not a county or school district;
- files on time (there is no longer an extension provision);
- has sufficient bonding (an amount at least equal to 10% of the revenues received, but not less than \$25,000); **AND**
- does not exceed the spending limit of \$1,000,000

AUP engagements must be performed in accordance with Oregon Administrative Rules Chapter 162 Section 40 ([OAR 162-040](#)) and the Statements on Standards for Attestation Engagements ([AT-C 215](#)). In an attestation engagement, the practitioner does not express an opinion or conclusion; rather they perform the defined procedures and report the results or findings.

A complete AUP annual filing with the Secretary of State includes all of the following:

- Annual Financial Report
  - GAAP, Cash, Modified Cash basis reports are permitted
  - Management's Representations of Compliance (or disclosure of non-compliance)
- AUP report
- Summary Information (Summary of Revenues and Expenditures Form)
- Filing Fee

Financial statement preparation and AUP reporting are **TWO SEPARATE** engagements. AUP reports are not included under the same cover as the financial statements like an auditor's report; however, can be included as another report or other information in the back of the annual financial report or under separate cover.

### **OAR 162-040: Oregon Minimum Standards for Agreed-Upon Procedures**

Procedures address 20 different aspects of a local government's operations and reporting, eleven are required (if applicable) and nine are potential.

Procedures are required for each category that applies to the government or where the government's reporting, or account balance, meets or exceeds the calculated threshold specified in the Oregon Minimum Standards.

**Procedures are required**, as applicable, over the following 11 aspects, regardless of dollar value. Typically, these are qualitative aspects of the government that may be meaningful, and often result in a Yes or No response or finding.

- (2) OBTAIN AND REPORT GENERAL INFORMATION
- (3) FINANCIAL REPORT (Threshold Calculation)
- (4) OPERATIONS, POLICIES + PROCEDURES
- (5) PUBLIC MEETINGS
- (6) ACCOUNTING RECORDS
- (7) RELATED PARTIES
- (8) PAYMENT CARDS
- (12) FUND BALANCE/NET POSITION
- (15) CASH
- (17) LOCAL BUDGET LAW
- (18) FIDELITY BOND + INSURANCE

**Potential procedures** include the other nine listed in the Minimum Standards and are required only if applicable to the entity (such as debt) and meets the threshold or specific criteria as listed in the procedure.

- (9) PROPERTY TAXES
- (10) ACCOUNTS RECEIVABLE
- (11) ACCOUNTS PAYABLE
- (13) REVENUE – CHARGES FOR SERVICES
- (14) PAYROLL
- (16) DEBT
- (19) CONTRACTING + PROCUREMENT
- (20) PROGRAMS FUNDED FROM OUTSIDE SOURCES
- (21) HIGHWAY FUNDS

## FAQ's

**If the local government meets the AUP criteria for being exempt from audit, do they have to file an AUP report or can they choose to file an audit?**

No. A local government may file an audit report to satisfy their reporting requirements under Municipal Audit Law (ORS 297). A separate AUP is not necessary as only one annual financial report is required.

**Can the CPA performing the AUP engagement also prepare the financial statements?**

If an entity needs assistance preparing financial statements, they do not have to use the CPA that performs the AUP engagement. A local government may consider contracting with one practitioner to assist with the financial statement preparation and another to perform the AUP engagement.

AUP engagements must be performed by an independent Licensed Municipal Auditor, licensed by the Oregon Board of Accountancy. There are no limitations on who can assist with financial statement preparation.

### **If a certain procedure does not apply to my entity, do the procedures have to be performed and reported on?**

The short answer is no; if procedures do not apply then no procedures are required to be performed or reported on. For example, if the entity does not have debt or is not subject to Local Budget Law (ORS 294) then no procedures are required to be performed or reported on. In another example, if the entity's property tax revenues fall below the calculated threshold, the practitioner can report that fact and omit further procedures.

The practitioner may list the procedure and report N/A, or they may leave the procedure off the report entirely. The exception is procedure 4, the AUP report must list all categories and report N/A for those that do not apply.

### **Does materiality apply to related party transactions procedures?**

No. Materiality is not a consideration in the procedures. Materiality is often determined, in part, by auditor judgment and not allowed in AUP engagements unless the materiality threshold is specifically identified within the procedures.

Some procedures include a calculated threshold below which certain accounts do not need to have procedures performed; however, this does not apply to the more qualitative procedures. For example, procedures over related party transactions and the existence of policies and procedures must be performed.

### **Can procedures/results be in an appendix format?**

An appendix is acceptable as long as it conforms to the requirements of the AUP standards. We are only dictating the content, not the format.

### **How does a practitioner performing an AUP engagement handle a procedure if they know the response the client is providing is incorrect?**

If the practitioner is aware of facts and circumstances leading them to believe the information presented is incorrect or incomplete the practitioner should follow-up with the client to seek clarification. Examples include related parties or the existence of a significant contract or transaction that have not been reported.

If the practitioner is unable to satisfy themselves the information provided is correct, complete, and provided in good faith, the practitioner may need to disengage. The attestation standards provide more information on how to respond (AT-C Section 215.30)

**If the statements are cash basis or modified cash basis, do the procedures related to accounts receivable and accounts payable still apply?**

Not necessarily. Many of the procedures required relate to the local government's financial reporting; however, that is not the only consideration. This step could be applicable if the entity provides payables or receivables information in another manner, such as the notes to the financial statements or periodic reporting to the board and public.

**Accounts payable procedures (11c):**

**Please confirm whether practitioners should select the five largest transactions, if there were more than five that exceeded the calculated threshold.**

If less than five transactions total more than the calculated threshold, the practitioner need only sample those transactions. For example, if two transactions exceed the threshold, then the practitioner only tests those two.

If there are several smaller individual transactions, five should be selected for testing. The practitioner would haphazardly select any five items, even if the total of those five is less than the calculated threshold.

The intent is to limit the procedures the practitioner must perform, when appropriate, to meet requirements.

**What time period should be used for the population for payables procedures: July (30 days), 90 days, or what time period?**

A reasonable time period would be 30 days as the intent is to verify transactions were reported in the correct period. The practitioner could review a 90-day period in accordance with the accrual period if deemed appropriate. The period used should be documented in the practitioner's working papers.

**Charges for Services procedures: Please clarify what (and how many) transactions are intended for selection.**

The practitioner should select 10 transactions. If less than 10 transactions total more than the calculated threshold, the practitioner need only sample those transactions. For example, if two transactions exceed the threshold, then the practitioner only tests those two.

The intent is to limit the procedures the practitioner must perform, when appropriate, to meet requirements.

**Payroll procedures: Should we use gross wages, net pay, or all payroll related expenditures such as taxes and benefits?**

Gross wages are appropriate.

**Local Budget Law procedures (17):**

**Which budget should be considered when applying these procedures?**

The intent is for the practitioner to perform procedures related to Local Budget Law for the period applicable to the AUP engagement.

Specifically, the practitioner should perform procedures over the preparation, adoption, and execution of the budget for the current period reported, **and** the preparation and adoption of the budget for the next succeeding year.

**Programs funded from outside sources procedures: What should the practitioner report related to requirements restricting the use of those funds or timing of spending?**

The intent of [OAR 162-010-0280](#) is for practitioners to be aware of any restrictions, and then comment on compliance as appropriate. The report should include the sources and amounts received during the year if the amount exceeds the calculated threshold, or 10 percent of revenues, whichever is greater. This applies to all programs, not just those with restrictions. The practitioner does not need to report on the restrictions imposed.