**SAMPLE ENGAGEMENT LETTER**

**AUP EXPENSES UNDER CC RI 20-39**

Date

ABC Company */ (Mr. John Smith*)

San Juan, Puerto Rico

We are pleased to confirm our understanding of the terms of our engagement and the nature and limitations of the services we are to provide to ABC Company / (*Mr. John Smith*).

You will agree to the procedures described below and will acknowledge that the procedures to be performed are appropriate for the intended purpose of the engagement, which is to comply with the requirements of the Puerto Rico Internal Revenue Code (the Code), and Circular Letter of Internal Revenue No. 20-39 (CC RI) to accompany the income tax return for the period ended (date). Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA). Those standards require that we obtain your written agreement to the procedures to be applied and your acknowledgment that those procedures are appropriate for the intended purpose of the engagement, as described in this letter. The agreement and acknowledgment are contained in this letter. A refusal to provide such agreement and acknowledgment will result in our withdrawal from the engagement. We make no representation that the procedures we will perform are appropriate for the intended purpose of the engagement or for any other purpose.

Because the agreed-upon procedures do not constitute an examination or review, we will not express an opinion or conclusion on the Schedule B-Schedule of Transactions and Balances Included in the Income Tax Return Subject to the Agreed Upon Procedures (the Schedule). In addition, we have no obligation to perform any procedures beyond those to which you agree.

The agreed-upon procedures are as follows:

1. Obtain a draft of the income tax return for the tax year ended \_\_\_\_\_\_\_\_20XX and compare the items with the Schedule.
2. Compare the amounts included in the Schedule in step 1 with the trial balance and general ledger.
3. Calculate the materiality to determine sample size for procedures 4, 6, 7, 8, and 10 using the table provided in the CC RI.
4. Compare the amounts included in the Schedule as revenue with the 12 monthly sales tax returns filed for the period. (This procedure only applies to taxpayers subject to sales tax return filing)
5. Compare the amount included in the Schedule with informative returns received for services and obtain a reconciliation between the informative returns (cash basis) with book balance (accrual basis). This procedure only applies to taxpayers that provide services and receive informative returns. For the items n the reconciliation, select a sample using the table included in the CC RI to confirm that differences are due to the method of accounting used, or your fiscal year.
6. Compare the monthly deposits included in the bank statements with the proof of cash reconciliation prepared by you with the revenue accounts in the general ledger and recalculate the mathematical accuracy of the reconciliation with the Schedule.
7. Obtain a detail of the bank deposits made in the subsequent month to year end and select a sample using the table included in the CC RI to inspect invoices, and or other supporting documentation to confirm that transaction was recorded in the appropriate period as derived from the description in the document.
8. Compare total purchases declared in the monthly sales tax return or import returns with the cost reconciliation included in the Schedule. Also, compare the inventory balances at beginning and end of year with the general ledger. For other cost items included in the reconciliation, select a sample using the table included in the CC RI that are not included in an informative return and compare with supporting evidence such as invoices, receiving report, or other available evidence for the period.
9. Recalculate depreciation expense considering useful lives in accordance with the Code with the detail of depreciation expense prepared by you based on a sample of cost items selected using the table included in the CC RI.
10. Fort he expenses included in the Schedule which are evidenced in an informative return, compare the amount included in the Schedule with the general ledger. Also, obtain a reconciliation with the informative returns (cash basis) and book balances (accrual basis) with the schedule. Select a sample using the table included in the CC RI to confirm that the reconciliation items are the result of the difference in the accounting method or fiscal year. If any item selected represent a transaction with related parties, compare the name of such related parties with those shown in the (SURI) platform. If the item sampled represents a transaction with a foreign party, confirm that such amount was included in the sales tax return self-imposed use tax for the period,
11. Select a sample using the table included in the CC RI of all expense categories not declared in an informative return of any kind and compare with supporting evidence such as invoices, receiving reports, contracts, or any other applicable document to confirm that the expense pertain to the tax period and the evidence is under your name.
12. If a sample selected in step 10 above represents a bad debt expense, confirm that such amount was not included in the accounts receivable subsidiary at the end of the period when it was registered.
13. If the expense item does not represent an incurred or paid item, recompute the deduction in accordance with the applicable Special Law.
14. If the sample selected in procedure 10 represents an amortization of an intangible asset, recompute such expense using the cost of the intangible included in the general ledger over the useful lives in accordance with the Code.
15. Compare the amount of dividends included in the Schedule with the general ledger and the applicable informative return and recompute the withholding at source, if applicable. Also compare the reconciliation of retained earnings prepared by you to confirm the description of the reconciling items with the tax return.
16. Compare the accounts receivable related parties identified in (SURI) with the Schedule and the general ledger.

We plan to begin our procedures on approximately (date) and, unless unforeseeable problems are encountered, the engagement should be completed by (date).

We will issue a written report upon completion of our engagement that lists the procedures performed and our findings. Our report will be addresses to ABC Company / (John Smith). If we encounter restrictions in performing our procedures, we will discuss the matter with you. If we determine the restrictions are appropriate, we will disclose the restrictions in our report. Our report will contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

There may exist circumstances that, in our professional judgment, will require we withdraw from the engagement. Such circumstances include the following:

* You refuse to provide written agreement to the procedures and acknowledge that they are appropriate for the intended purpose of the engagement.
* You fail to provide requested written representations, or we conclude that there are sufficient doubts about the competence, integrity, ethical values, or diligence of those providing the written representations, or we conclude that the written representations provided are otherwise not reliable.
* We determine that the description of the procedures performed, or the corresponding findings are misleading in the circumstances of the engagement.
* We determine that restrictions on the performance of procedures are not appropriate.

An agreed-upon procedures engagement is not designed to detect instances of fraud or noncompliance with laws or regulations; however, should any such matters come to our attention, we will communicate them in accordance with professional standards and applicable law. In addition, if, in connection with this engagement, matters come to our attention that contradicts the information included in the Schedule, we will communicate those matters to you.

You agree to the procedures to be performed and acknowledge that they are appropriate for the intended purpose of the engagement.

You are responsible for the Schedule. In addition, you are responsible for providing us with (1) access to all information of which you are aware that is relevant to the performance of the agreed-upon procedures on the subject matter, (2) additional information that we may request from the appropriate party for the purpose of performing the agreed-upon procedures, and (3) unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence relating to performing those procedures.

At the conclusion of our engagement, we will require certain written representations in the form of a representation letter from management (*you*) that, among other things, will confirm management’s (*your*) responsibility for the Schedule in accordance with procedures enumerated before.

CPA (name) is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing individual to sign it.

We estimate that our fees for these services will be $\_\_\_\_\_\_\_\_\_. You will also be billed for travel and other out-of-pocket expenses such as report production, postage, etc. The fee estimate is based on anticipated cooperation from your personnel (*you*) and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Our invoices for these services will be rendered as work progresses and are payable upon presentation. In accordance with our firm policies, work may be suspended if your account becomes (days) overdue and will not resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

We appreciate the opportunity to assist you and believe this letter accurately summarizes the significant terms of our engagement. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy, and return it to us. If the need for additional procedures arises, or the procedures need to be modified, our agreement with you will need to be revised. It is customary for us to enumerate these revisions in an addendum to this letter. If additional specified parties of the report are added, we will consider whether they need to acknowledge in writing their agreement with the procedures performed or to be performed and their acknowledgment that the procedures are appropriate for their purposes.

Very truly yours,