

**SAMPLE ENGAGEMENT LETTER**  
**AUP EXPENSES**

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)*.

We will perform the procedures enumerated below, which were agreed to by the management of ABC Company / *(Mr. John Smith)*, and the Puerto Rico Treasury Department (the Department), solely to assist the Company / you and the Department in evaluating the reasonableness of the expenses included in the Schedule C-Schedule of Expenses Allowed as a Deduction on the Income Tax Return for ABT or AMT Subject to the Agreed Upon Procedures for the period ended December 31, 20XX, , as required by Sections 1021.02 and 1022.04 of the Puerto Rico Internal Revenue Code of 2011, as amended, and Circular Letter of Internal Revenue No. 19-14 (CL 19-14). The (Company's management or Individual) is responsible for the Schedule. The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated exceptions, if any, are as follows:

1. Obtain a draft of the tax return of ABC Company / *(Mr. Smith)* for the year ended \_\_\_\_\_20XX.
2. Compare the amounts included in the Schedule to the trial balance for the corresponding accounting period or to a detail of items comprising the amount claimed and found them to agree.
3. Compute materiality level in accordance with the criteria established by CL 19-14.
4. Compute a representative sample using sampling parameters in accordance with the criteria established by CL 19-14.

5. Allocate the sample size determined in step 4 to the expense categories in the Schedule in accordance with the methodology established in CL 19-14.
6. Obtain for each sample selected in step 5, supporting documentation (e.g. contracts, invoices, purchase orders, receiving report, cancelled checks if paid before the issuance of this report, and other evidence necessary to validate that the expense was incurred) as provided in CL 19-14 for the applicable expense category, and to ascertain that the expense is reasonably related to the operations of the taxpayer (e.g. invoice or receipt is addressed to the taxpayer)
7. Compare the amount of the item selected in step 5 to the supporting documentation obtained in step 6 and found to agree.
8. Compare the description on the supporting documentation with the expense category on the income tax return and found them to agree.

Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures to be performed is solely the responsibility of ABC Company / (*Mr. John Smith*) and we will require an acknowledgment in writing of that responsibility. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which the agreed-upon procedures report has been requested, or for any other purpose.

Because the agreed-upon procedures listed below do not constitute an examination or review, we will not express an opinion or conclusion on the Schedule C-Schedule of Expenses Allowed as a Deduction on the Income Tax Return for ABT or AMT Subject to the Agreed Upon Procedures for the period ended December 31, 20XX. In addition, we have no obligation to perform any procedures beyond those listed below.

We plan to begin our procedures on approximately (*Date*) and, unless unforeseeable problems 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 / (*Mr. John Smith*). If for any reason, we are unable to complete any of the procedures, we will describe in our report any restrictions on the performance of the procedures, or not issue a report and withdraw from this engagement. You understand that the report is intended solely for

the information and use of ABC Company / (*Mr. John Smith*), and the Puerto Rico Treasury Department, and should not be used by anyone other than these specified parties. 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.

An agreed-upon procedures engagement is not designed to detect instances of fraud or noncompliance with laws or regulations; however, we will communicate to you any known and suspected fraud and noncompliance with laws and regulations affecting the expenses to be subjected to the agreed-upon procedures that come to our attention. In addition, if, in connection with this engagement, matters come to our attention that contradicts the expenses inspected, we will disclose those matters in our report.

You are responsible for the Schedule C-Schedule of Expenses Allowed as a Deduction on the Income Tax Return for ABT or AMT Subject to the Agreed Upon Procedures for the period ended December 31, 20XX, and for selecting the criteria and procedures and determining that such criteria and procedures are appropriate for your purposes. You are also responsible for, and agree to provide us with, a written assertion about the Schedule C-Schedule of Expenses Allowed as a Deduction on the Income Tax Return for ABT or AMT Subject to the Agreed Upon Procedures for the period ended December 31, 20XX. 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 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 C-Schedule of Expenses Allowed as a Deduction on the Income Tax Return for ABT or AMT Subject to the Agreed Upon Procedures for the period ended December 31, 20XX in accordance with procedures enumerated before.

CPA Smart 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 15 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 have any questions, please let us know. 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 needs 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 require that they acknowledge in writing their agreement with the procedures performed or to be performed and their responsibility for the sufficiency of procedures.

Very truly yours,

CPA Smart

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\*This letter correctly sets forth the understanding of ABC Company / (Mr. John Smith).

By:\_\_\_\_\_

Title:\_\_\_\_\_

Date: \_\_\_\_\_