Internal Audit Breakout Session
Agreed-Upon Procedures Audit

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Agreed-Upon Procedures Audit

Using targeted independent testing to strengthen oversight, controls, and operational assurance

SACRS 2026 Fall Conference | Audit & Accounting Breakout Session

Executive Summary

AUP is a precision engagement—not a substitute for every type of audit.

What it is

A practitioner performs specific procedures agreed in advance and reports factual findings.

What it is not

No overall audit opinion and no assurance conclusion is expressed.

Why use it

Ideal when the Board / Management knows exactly what it wants independently tested.

Best fit: targeted, objective questions that can be answered through defined procedures.

Strong applications: benefits, investment fees, procurement, data conversion, cybersecurity, DR/BCP, third-party risk, and remediation validation.

Key governance question: Does the engagement need an opinion, factual findings, or advice?

What Is an AUP Engagement?

The parties agree the procedures; the practitioner reports the results.



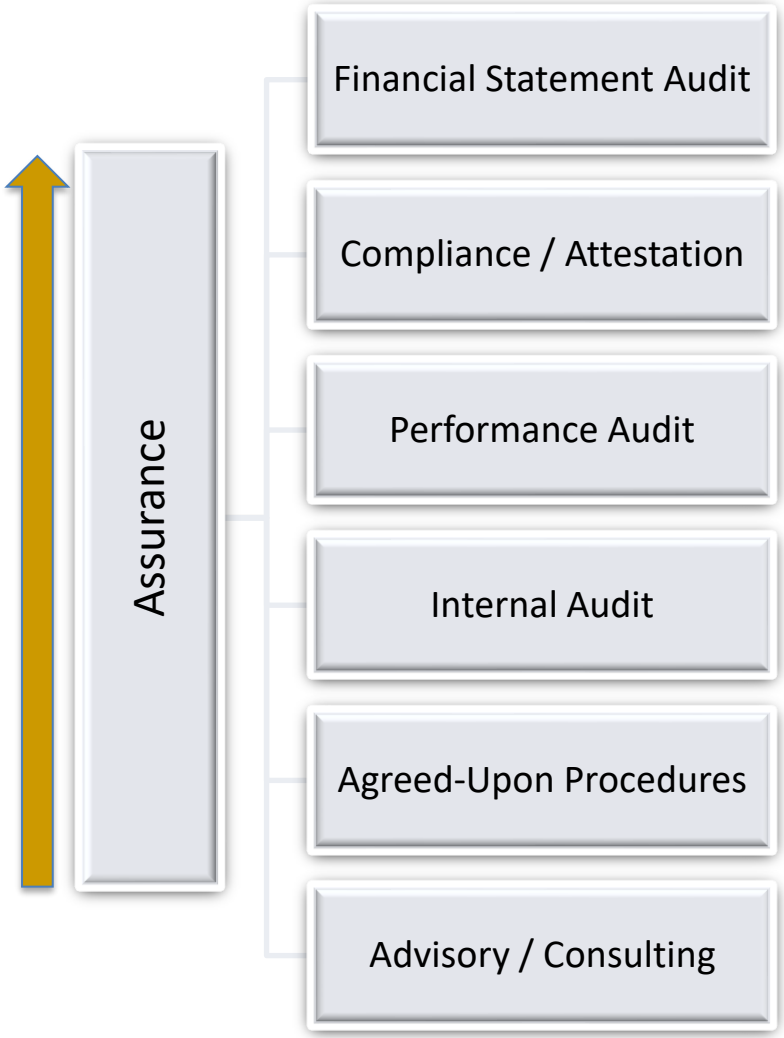
Core principle

"Tell us exactly what you want independently tested, and we will perform those procedures and tell you exactly what we found."

AUP vs. Other Engagement Types

Engagement	Primary output	Assurance	Best question
Financial statement audit	Opinion	Reasonable	Are the financial statements fairly presented?
Internal audit	Assurance / findings	Assurance & Advisory	Are risks and controls operating effectively?
Agreed-Upon Procedures (AUP)	Factual findings	No Assurance	Did these specified procedures produce these results?
Advisory/Consulting	Advice / recommendations	No Assurance	How can we improve this?
Performance and Operational Compliance	Assurance / findings	Assurance & Advisory	Are performance objectives achieved efficiently and in conformance with laws, and regulations?

The Assurance Spectrum



Core principle

The lower portion of the spectrum does not necessarily mean lower value. It means the engagement provides a different type of information and conclusion.

Governing Standards

The engagement letter should explicitly identify the professional framework.

AICPA AT-C 215

Agreed-Upon Procedures Engagements under the AICPA Statements on Standards for Attestation Engagements (SSAEs).

GAGAS / Yellow Book

If the engagement is performed under Government Auditing Standards, additional requirements may apply—especially independence, competence, CPE, quality, documentation, and reporting.

IIA / Red Book

Internal Audit Attestation and Asdvisory engagements are performed under the IIA Global Internal Audit Standards.

Advantages of an AUP

Targeted

Focuses on a specific risk or question.

Flexible

Procedures can be designed around its specific risks.

Independent

Provides independent third-party testing.

Actionable

Findings can identify exact exceptions.

Efficient

Narrow scope can be more cost-effective than a broad audit.

Remediation-ready

Excellent for validating corrective actions.

Limitations and Risks

AUP value depends heavily on procedure design and the question being asked.

No assurance

The practitioner does not provide an overall assurance conclusion.

Narrow scope

Results relate to the procedures and population tested.

Procedure design

Poorly designed procedures can answer the wrong question.

Interpretation

The Board/management may need to assess significance of findings.

Sampling

Sample results should not automatically be generalized beyond the engagement design.

When Should a Public Pension System Use an AUP?

Use the engagement type that matches the question.

Use AUP when…

- The question is specific
- Procedures can be defined in advance
- Independent factual findings are desired
- An overall opinion is not necessary

Use an audit when…

- The Board needs assurance
- A professional conclusion is required
- Scope needs to be risk-based and broader
- The subject is material or enterprise-wide

Use advisory when…

- Management wants help improving a process
- The objective is design or transformation
- No assurance or factual testing conclusion is required

Decision rule

“We know exactly what we want independently tested” → AUP.

High-Value AUP Applications for Pension Systems

Benefits

Recalculate benefit payments; verify eligibility, service, compensation, approvals.

Investments

Recalculate manager fees; test policy limits; verify transaction approvals.

Procurement

Test competitive process, approvals, sole-source support, vendor due diligence, conflict of interest disclosures.

Technology

Test access, privileged accounts, data conversion, change controls.

Resilience

Verify RTO/RPO, recovery plans, backups, system owners identified, current backup, test evidence, corrective actions.

Third parties

Verify SOC reports, contract controls, risk assessments, cyber security and continuity requirements, insurance requirements.

Illustrative AUP: Benefit Payment Testing

Example scope that could be commissioned by Audit Committee / Executive Management.

Population

Select 100 benefit payments during the audit period.

Procedures

- Verify eligibility
- Recalculate payment
- Verify authorization
- Inspect supporting documentation
- Confirm recipient/payment data

Report

Report each exception and the related procedure performed.

No overall conclusion that the benefit process is effective is expressed.

Potential finding

“3 of 100 payments lacked evidence of required supervisory approval.”

AUP Examples Across the Pension Enterprise

Pension administration

Benefit calculations • payroll • beneficiary records

System implementation

Legacy-to-new data conversion • interface reconciliation

Cybersecurity

MFA • privileged access • terminated-user access • access reviews

Disaster recovery / Business Continuity

Critical applications • RTO/RPO • backup/recovery test evidence

AI governance

Use-case inventory • risk assessment • human oversight • Model / vendor controls

Remediation

Validate closure of prior audit findings or management action plans

Investment Management

Management fees • asset allocation • policy limits • performance

Board Governance

Agendas, minutes, required disclosures, votes, investment decisions, trustee education requirements

Audit Engagement Decision Framework

A simple framework for selecting the right engagement.

Need an opinion or assurance conclusion?	Yes → Assurance / audit engagement	No → Continue
Know exactly what procedures to perform?	Yes → AUP	No → Continue
Need independent evaluation of risks and controls?	Yes → Internal audit / assurance	No → Continue
Need help improving or designing something?	Yes → Advisory / consulting	No → Consider a specialized engagement

Key Takeaway

AUP is a precision instrument

It is most valuable when the Board / Management has a specific, well-defined question and wants independent factual findings.

Greatest strengths

Precision • Flexibility • Independence • Objective findings • Focused cost

Greatest limitation

No overall assurance conclusion. Do not use AUP as a substitute when the Board needs assurance.

Recommended next step: define the risk question first, then select the engagement type.

The SCERS Experience with Agreed-Upon Procedures

Using targeted independent testing to strengthen oversight, controls, and operational assurance

SACRS Fall Conference | Audit & Accounting Breakout Session

Why SCERS Established an AUP Program

- Create targeted assurance in areas not fully addressed through the annual financial statement audit.
- Test specific processes, data, and controls that SCERS relies upon to administer the retirement system.
- Use independent factual results to identify exceptions, control gaps, and opportunities for process improvement.
- Build a repeatable audit approach that can evolve as SCERS' operational and technology environment changes.

How SCERS Approached the Program

Risk-Based

Start with a specific risk, process, or assurance gap—not with a generic audit objective.

Defined Procedures

Translate the question into procedures that can be performed, observed, and reported factually.

Action-Oriented

Use exceptions and results to improve controls, clarify responsibilities, and guide follow-up.

Initial Areas Selected for AUP Review

Employer Reporting

Payroll reporting and member data that support membership, benefits, and contribution administration.

Contribution Accounting

Contribution accounting, reporting, reconciliation, and related control processes.

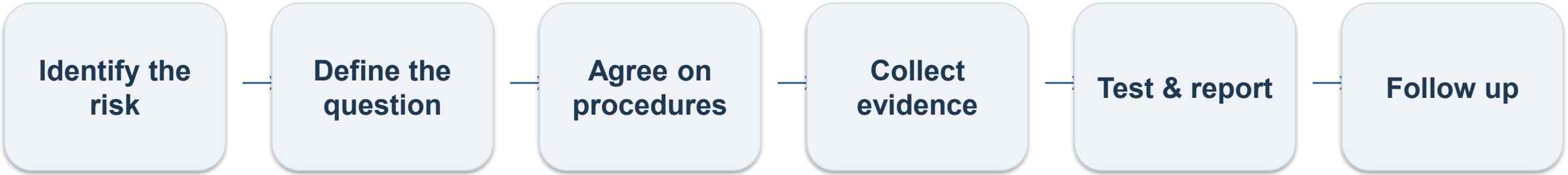
Data & Operational Risk

Third-party data privacy and business resumption/continuity as examples of targeted nontraditional AUP applications.

AUPs Require More Than an Auditor

- Executive management: defines the assurance need and establishes accountability for follow-up.
- Operational and subject-matter staff: provide process knowledge, data, documentation, and context.
- Participating employers and County partners: support testing where SCERS relies on externally generated information or services.
- Board and committees: receive appropriate reporting and oversight information.
- AUP auditor: performs the agreed procedures and reports factual results and exceptions.

From Risk to Fieldwork



What SCERS Has Learned

- The quality of the engagement depends heavily on the precision of the agreed-upon procedures.
- Confirm data availability and documentation before finalizing the procedures.
- Define what constitutes an exception before fieldwork begins.
- Prepare stakeholders early so requests and responsibilities are understood.
- Establish ownership for reviewing exceptions and tracking corrective action.
- Treat each engagement as input to the broader risk, control, and audit program.

Practical Case Study: Employer Reporting and Payroll Compliance

An example of using AUPs beyond traditional accounting transactions

Risk
Can critical operations resume as expected?

Procedure
Define specific evidence and steps to test.

Testing
Examine plans, responsibilities, records, and execution.

Results
Report factual exceptions or gaps.

Follow-Up
Assign corrective action and strengthen readiness.

Key Takeaways for 1937 Act Systems

Start With the Risk

Use AUPs where a specific process, control, data set, or operational dependency needs targeted independent testing.

Scope Matters

Procedures should be precise enough that results are factual, understandable, and useful.

Use the Results

The value is not simply identifying exceptions—it is strengthening processes, controls, and accountability.

Peer Discussion

- Where could targeted AUP testing add value at your system?
- What processes or data do you rely upon that are outside the scope of your annual financial statement audit?
- How does your system currently test employer reporting & payroll compliance or other operational risks?
- What challenges would you anticipate in implementing an AUP program?

AGREED-UPON PROCEDURES

Employer Enrollment & Payroll Reporting Compliance

Executive overview for a California 1937 Act county public pension system

Proposed scope • 18 procedures • Risk-based testing + data analytics

Prepared for SACRS 2026 Fall Conference

Executive takeaway

The engagement is designed to surface factual exceptions—not provide an audit opinion or overall compliance conclusion.

Protect member outcomes

Incorrect enrollment or compensation can affect contributions, service credit, final compensation, and benefits.

Validate reporting integrity

Trace employer source payroll through submissions, system processing, and member-account postings.

Focus on compliance

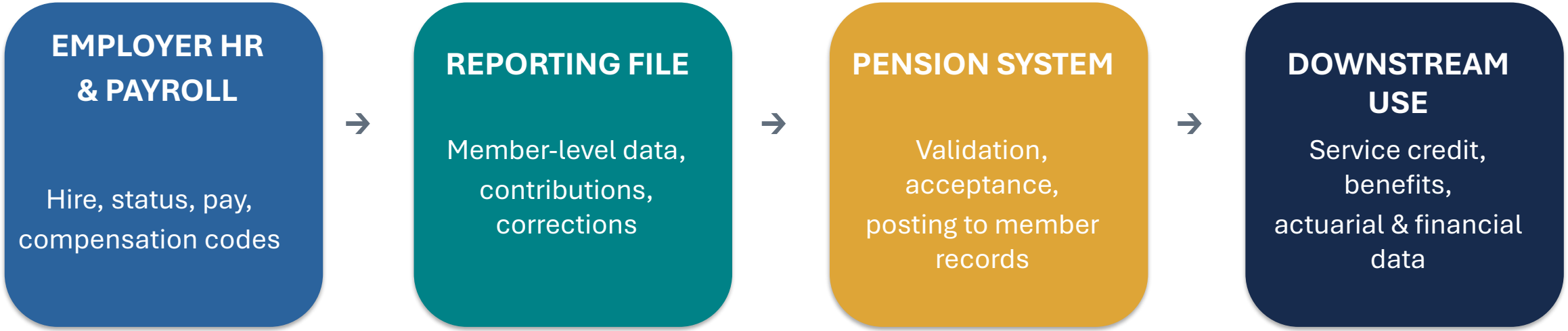
Test against applicable CERL provisions, plan terms, reporting instructions, and other requirements where applicable.

Recommended design

- Use full-population analytics where reliable data are available, then validate exceptions to source records.
- Combine targeted high-risk testing with defined transaction samples.
- Report procedures, items tested, factual findings, quantified differences, and unresolved questions.

Why employer reporting matters

Errors can propagate from employer payroll into member records, contributions, actuarial data, and benefit administration.



Primary exposure areas

- Eligible employees omitted or enrolled late
- Incorrect member group, tier, or effective date
- Pensionable compensation misclassified

Potential consequences

- Incorrect member/employer contributions
- Inaccurate benefit or service-credit records
- Unresolved reporting differences and compliance exposure

Engagement objectives and boundaries

Define success in terms of transparent, reproducible factual findings.

COMPLETENESS

Are eligible employees and required payroll transactions represented in the reporting population?

ACCURACY

Do member, compensation, and contribution amounts agree to source evidence and recalculation?

CLASSIFICATION

Are eligibility, membership group, benefit tier, and compensation categories supported by criteria?

TIMELINESS & CONTROLS

Were submissions timely, reviewed, authorized, and corrected through documented processes?

AUP boundary: the practitioner reports procedures performed and factual findings; no opinion or assurance conclusion is expressed.

Proposed 18-procedure coverage

Organized into five workstreams for executive oversight.

A. Population & data integrity

01 Employer population
02 Submission reconciliation
03 Completeness of member payroll
04 Transmission & processing integrity

B. Enrollment & membership

05 Enrollment completeness
06 Eligibility & effective dates
07 Classification / benefit tier
08 Employment changes & termination

C. Payroll & contributions

09 Base pay / pay rates
10 Pensionable compensation
11 Overtime & unusual payments
12 Contribution recalculation
13 Retroactive pay & adjustments

D. Timeliness & controls

14 Reporting timeliness
15 Certifications & reviews
16 Access & segregation of duties

E. Compliance & follow-up

17 Legal / plan criteria testing
18 Prior findings & remediation

Detailed procedure sheets should define the precise criteria, population, sample, evidence, and exception threshold before fieldwork.

Testing strategy: analytics + source validation

Use population-level analysis to identify risk patterns, then validate selected records to original evidence.

1 | Population analytics

- Reconcile counts and totals across payroll, submission, and pension-system records
- Flag missing members, duplicate records, unusual compensation, late submissions, and large adjustments
- Analyze all available records where data quality and access permit

2 | Source-document testing

- Trace sampled records from HR/payroll source to submission and posted member record
- Recalculate pay and contributions using approved rates and applicable plan criteria
- Inspect approvals, eligibility support, compensation coding, and correction evidence

Important: distinguish random samples from targeted selections. Do not project judgmental-sample exceptions to the full population without an agreed, appropriate method.

Illustrative sampling plan

Final sample sizes and selection methods must be agreed by the specified parties.

Population	Illustrative coverage	Selection / focus
Employer population	100% of employers	Master-file and activity completeness
New enrollments	Up to 60 per selected employer	Random sample + eligibility edge cases
Payroll observations	Up to 60 per selected employer	Stratify by period, group, and pay type
Compensation codes	All active codes in selected employers	Transaction tests for material / high-risk codes
Adjustments & unusual items	All flagged items + targeted sample	Analytics-driven exceptions
Privileged / incompatible access	100% identified population	Access rights and change-log inspection
Reporting periods	All periods for timeliness; 12 for control review where applicable	Submission and review evidence

These are planning examples—not mandatory standards or statistically valid sample sizes by themselves.

Criteria must be plan-specific

Build a requirements crosswalk before testing; do not assume CalPERS rules automatically apply to CERL plans.

CERL

Applicable California Government Code provisions, including relevant membership, compensation, and contribution requirements.

Plan & county provisions

Applicable county ordinances, Board resolutions, plan amendments, member categories, and benefit-tier provisions.

Employer terms

Participation agreements, labor agreements, approved salary schedules, reporting instructions, and contribution-rate notices.

Other applicable law

PEPRA, regulations, and other state or federal requirements only where applicable to the plan, member, and transaction.

How findings will be reported

Each exception should be traceable to a specific procedure, evidence, and applicable criterion.

1	**Condition**	What was observed; identify employer, reporting period, and transaction.
2	**Criteria**	Specific statute, plan provision, instruction, or control requirement.
3	**Quantification**	Affected members, pay / contribution difference, or days late, where determinable.
4	**Evidence & response**	Records examined, employer explanation, and management response if in scope.
5	**Disposition**	Open, corrected, disputed, or pending legal interpretation; evidence of correction.

Severity labels may help management prioritize remediation, but they do not replace reporting all factual findings required by the agreed procedures.

Governance and responsibilities

Clear ownership is essential to access, legal criteria, remediation, and the final AUP report.

Retirement system management

Owns reporting oversight, data access, criteria coordination, and remediation decisions.

Participating employers

Provide complete source records, explain exceptions, and correct employer-originated submissions.

Legal / compliance

Validates applicable statutory and plan criteria; resolves ambiguous interpretations.

Practitioner

Performs only agreed procedures, preserves evidence, and reports factual findings without an opinion.

Audit Committee / Board

Sets oversight expectations; receives findings and monitors material unresolved issues.

Deliverables and decisions before launch

Finalize the engagement terms before the practitioner begins fieldwork.

Core deliverables

- AUP report with each procedure and factual findings
- Exception register with quantified differences where determinable
- Employer-level findings schedules
- Reconciliation of payroll, contributions, and posted member records
- Remediation tracker, if included in scope

Required decisions

- Reporting period and participating employers
- Specified parties and intended use of report
- Final procedures, criteria, samples, and exception thresholds
- Data access, privacy safeguards, and secure transfer method
- Management response, correction validation, and follow-up scope

Executive decision

Approve the proposed risk-based AUP framework for detailed scoping, legal-criteria validation, and engagement agreement development.

KEY MESSAGE

Reliable employer reporting is a member-protection control—not simply a payroll processing task.

A disciplined AUP can identify missing enrollments, incorrect compensation treatment, contribution differences, and recurring reporting weaknesses—while keeping the practitioner's audit procedures within the agreed scope.

POPULATION ANALYTICS

SOURCE VALIDATION

FACTUAL FINDINGS