

**65A.032 Agreed-upon procedures engagement alternative to audit -- Conditions --
Written certification -- Requirements -- Contract. (Effective July 1, 2027)**

- (1) Effective for fiscal years beginning on or after July 1, 2027, a special purpose governmental entity required to complete an audit pursuant to KRS 65A.030 may elect, subject to disapproval by the DLG as provided in subsection (3) of this section, to instead have an agreed-upon procedures engagement with either the Auditor of Public Accounts or a certified public accountant in accordance with this section.
- (2) In order for a special purpose governmental entity to proceed with an agreed-upon procedures engagement under this section for a particular fiscal year, the following conditions shall be met:
 - (a) The special purpose governmental entity shall have complied with any of the requirements applicable to it under KRS 65A.030 or this section in the immediately preceding fiscal year;
 - (b) The special purpose governmental entity has not been subject to a special examination by the Auditor of Public Accounts during the immediately preceding fiscal year or during the fiscal year to be reviewed under agreed-upon procedures;
 - (c) For the fiscal year subject to an agreed-upon procedures engagement, the special purpose governmental entity has received and expended, from all sources and for all purposes, less than fifteen million dollars (\$15,000,000);
 - (d) The DLG does not object to the special purpose governmental entity's election to use an agreed-upon procedures engagement under subsection (3) of this section; and
 - (e) The special purpose governmental entity is not required by any other provision of state or federal law to perform an audit or examination more stringently than is required by this section.
- (3)
 - (a) In order to elect to use the alternative procedures provided by this section, a special purpose governmental entity shall complete a written certification sent to the DLG within thirty (30) days following the conclusion of the special purpose governmental entity's fiscal year.
 - (b) The written certification shall affirm that the special purpose governmental entity meets the qualifications of subsection (2)(a) to (e) of this section.
 - (c) Within thirty (30) days following the receipt of the written certification, the DLG may for any reason in its discretion object to the use of the agreed-upon procedures engagement by notifying the special purpose governmental entity in writing the details of the objection.
 - (d) A special purpose governmental entity that receives a written objection from the DLG shall be disqualified from using the agreed-upon procedures engagement for that fiscal year.
 - (e) If the DLG does not provide a written objection to the special purpose governmental entity within thirty (30) days, then the special purpose governmental entity may proceed under this section.

- (4) An agreed-upon procedures engagement entered into by a special purpose governmental entity under this section shall be conducted and governed under the American Institute of Certified Public Accountants professional standards, and any additional standards and requirements established by the Auditor of Public Accounts through the promulgation of administrative regulations in accordance with KRS Chapter 13A. At a minimum, any agreed-upon procedures engagement shall be required to examine and report on the following matters of the special purpose governmental entity:
 - (a) Reconciliation of cash, including the recalculation of year-end bank reconciliations, confirmation of beginning and ending balances, and verification that reconciled bank balances agree to fund cash balances in the accounting system and financial statement;
 - (b) Confirmation of cash balances directly with any external financial institutions;
 - (c) Fund balances and transfers;
 - (d) Inspection of investment holdings for compliance with applicable state law and any policies adopted by the special purpose governmental entity;
 - (e) A statement of receipts and disbursements, including payroll disbursements;
 - (f) Identification of outstanding debt to include confirmation of beginning and ending balances, any new debt issuance or payments, amortization schedules, and compliance with debt terms; and
 - (g) Verification that total expenditures do not exceed appropriations.
- (5) An agreed-upon procedures engagement performed under this section shall be completed no later than twelve (12) months immediately following the conclusion of the fiscal year being examined. A copy of the agreed-upon procedures report shall be forwarded to the DLG in accordance with KRS 65A.030(2)(c)1.
- (6) Any special purpose governmental entity proceeding under this section to perform an agreed-upon procedures engagement in lieu of an audit shall enter into a contract with the Auditor of Public Accounts or a certified public accountant. The contract shall set out all terms and conditions of the agreement which shall include but not be limited to requirements that:
 - (a) The Auditor of Public Accounts completes an agreed-upon procedures report in compliance with subsection (4) of this section; and
 - (b) The certified public accountant completing an agreed-upon procedures engagement under this section allows the Auditor of Public Accounts to review the certified public accountant's work papers upon request.
- (7) An agreed-upon procedures report completed under this section shall be deemed to satisfy any state law or administrative regulation that requires the submission or completion of an audit.
- (8) A special purpose governmental entity shall forward a copy of any agreed-upon procedures report completed under this section to the Auditor of Public Accounts upon request from that office.

Effective: July 1, 2027

History: Created 2026 Ky. Acts ch. 199, sec. 2, effective July 1, 2027.