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**Sample of Audit Engagement Letter**

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| **Engagement Reference No. Dated: …………..**    The Head of the Entity (Head of Management or those charged with governance)  XYZ entity  Sir/Madam,  **The objective and scope of audit**  As required under the SAI Audit Act and …. (other relevant laws), the SAI of …. (insert name of country) will conduct the audit of the Financial Statement of the XYZ entity, which comprise Statement of Financial Position as at 31 December 20X1, Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies (these are names of financial statements prepared on accrual basis, and names as provided in IFRS. In case of cash based accounting, the financial statement could comprise of Receipts and Payments Statements or Cash Receipts and Cash Payments, and Statement of Expenditure for the year ended 31 December 2016). This is a mandated audit as required by the Laws. We further confirm our understanding of this audit engagement by means of this letter.  The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.  **Responsibilities of the Auditors**  We will conduct our audit in accordance with International Standards of Supreme Audit Intuitions (ISSAIs). Those standards require that we comply with ethical requirements. As a part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:   * Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.      * Obtain an understanding of internal control relevant to audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit. * Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. * Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the entity to cease to continue as a going concern. * Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.   Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISSAIs.  We will issue audit findings in the form of audit observations from time to time during audit requiring additional information, proper explanation and appropriate action from the management.  **Responsibilities of the management**  Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance] acknowledge and understand that they have responsibility:   1. For the preparation and fair presentation of the financial statements in accordance with applicable financial reporting framework (in case where entity has used fair presentation framework) Or preparation of the financial statements in accordance with applicable financial reporting framework or XYZ law of ABC jurisdiction (in case where entity has used compliance framework); 2. For such internal control as [management] determines it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and 3. To provide us with: 4. Access to all information of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters; 5. Additional information that we may request from [management] for the audit; and 6. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.   As part of our audit process, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit. We look forward to full cooperation from your staff during our audit.  **Audit Entry Conference**  The Audit Entry Conference shall be conducted at the commencement of audit. Amongst others, the contents of the engagement letter will be discussed in the Entry Conference.  **Disclosure of fraud and corruption**  If the management is aware of fraud and corruption that took place in the entity, they should disclose to the auditors during the audit entry conference or during audit. It is the responsibility of the management to institute adequate system of internal controls to prevent and detect fraud and corruption.  **Custody and control of documents**  The responsibility for custody and control of documents shall rest with the management. The auditor shall not remove documents from the entity’s premises without management’s consent. At the end of the audit, the auditors shall handover all the documents to the management.  **Audit Exit Meeting**  An Audit Exit Meeting will be conducted within one month on completion of field audit. During the exit meeting, the auditor’s report on the financial statements, audit findings along with management’s responses will be discussed and finalised.  **Reporting**  On completion of audit, the auditor as designated by the SAI shall express an opinion as to whether or not the financial statements are prepared, in all material respect in accordance with financial reporting framework or gives a true and fair view of the financial performance of any entity.  **Agreement of terms**  Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.  **\_\_\_(signed)\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**  **Head of SAI/Department/Division**  Acknowledged and agreed on behalf of XYZ Entity by  (signed)  ......................  Name and Title Date |

**Guidance for draft and issue audit engagement letter**

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| Overall Objective of the completing the template | The overall objective of issuing the audit engagement letter is to establish the terms and conditions of audit engagement. In the context of audit conducted by the SAIs, the issuance of audit engagement letter may further reinforce the mandate, responsibilities of the SAIs, and management of the entities that may have been already defined in various laws, rules and regulations.  This letter also establishes the terms and conditions of the audit engagement. |
| Applicable ISSAIs | ISSAI 2210, ISSAI 2260 |
| Guidance | This Audit Engagement letter is adapted from Appendix 1 of ISSAI 2210 (Amended version). Some of the contents are customised that may be applicable in the audit of financial statements of public sector entities.  The contents of the audit engagement letter should be amended according to the type of financial reporting framework used by the entity or entities to prepare the financial statements. The framework could be either a fair presentation framework or compliance framework, as such the wording of Para No (a) under Management’s responsibilities, and description in the last page under reporting section will have to be amended accordingly. Similarly, if the financial statements are prepared on cash basis, the responsibility of the auditor to evaluate the reasonableness of the accounting estimates become irrelevant (refer bullet point No. 3 under auditor’s responsibilities).  The paragraph on going concern assumption also needs to be reviewed, since this is more applicable to business entities or the listed companies. The engagement team also needs to assess whether going concern issues are relevant to the audited entity. Otherwise, the paragraph should be deleted.  Therefore, the audit engagement letter should be customised accordingly, and made relevant to audit of an entity identified for audit. |
| Conclusion | The audit supervisor or the team leader should ensure that the management of the entity or those charged with governance have understood the content of the audit engagement letter. Among others, the audit entry conference can be used as a forum to discuss and communicate with the management and those charged with governance where appropriate on the terms and conditions of the audit engagement. |