

AGREEING THE TERMS OF AUDIT ENGAGEMENTS – (S.L.Au.S – 210)

Introduction

In practical terms, the Auditor will not be accepting the Audit Engagement upon receiving the request from the Management. Auditor shall accept and continue an audit only when preconditions for an audit are present and common understanding exists between auditor and Management regarding the terms of the engagement.

To determine whether preconditions are present, auditor should do the following;

- A) Auditor shall determine whether the financial Reporting Framework used by the management to prepare financial statements is acceptable. To do this auditor should have good understanding about the nature of the entity, financial statements, purpose of the financial statement, laws and regulations and the applicable financial reporting framework.
- B) Obtain acknowledgement from management that they are taking the responsibility for the preparation of financial statements in accordance with applicable reporting framework, establishing good internal control system within the organization and providing unrestricted access to all the information which are required to conduct the audit.

If auditor determines these preconditions are not present, auditor should not accept the engagement.

Steps to accept a Audit Engagement

- a) Formal request from the client to auditor to accept the audit engagement.
- b) Ascertain whether the preconditions are met.
- c) Verbal Agreement between the client and the auditor with regard to Terms and Conditions of the Audit engagement
- d) Converting the verbal agreements into a written agreement and both parties to signed the agreement

What is Audit Engagement Letter?

"It is a document/Agreement which prepared by the Auditors, while converting all the verbal terms and conditions which both parties agreed, in relation to an audit engagement, into a written format."

When terms of engagement are agreed by both parties, those terms should be recorded in an engagement letter.

Content of the Audit Engagement Letter

A) Main Contents/ Principle Contents

- 1) The objective and the responsibility of the Auditor
- 2) Management's responsibilities
- 3) Scope of the audit
- 4) Reference to the expected form and content of any reports to be issued by the auditor
- 5) Unrestricted access to the books of accounts, documents and information which is applicable to audit
- 6) The fact that due to the inherent limitations of an audit and those 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 SLAus Arrangements regarding planning and performance

B) Content to be included depending on the preference of the Auditor.

- 7) Information relating to Planning of the Audit Engagement
- 8) Expectation that management will provide written representations
- 9) The report that the Auditor expects to release other than the Signed Audit Report
- 10) Fees and Billing Arrangements
- 11) Requesting the client read the agreement to obtain overall understanding about the audit and requesting to sign off the both original and duplicate copy and to send the original while keeping the copy for future reference.

C) Contents to be included depending on the situation

- 12) Involvement of Other Auditors, Experts
- 13) Using the work of the Internal Auditors and the internal staff depending on the applicability
- 14) Arrangements to be made with predecessor auditor
- 15) Areas where the liability of the Auditor is limited
- 16) Any other arrangements between the client and the auditor

The Board of Directors or the appropriate representative of senior management

You have requested that, we audit the statement of Financial Position of (Company) as of 31st March 2023 and the related statements of income and cash flows for the year then ended 31st March 2023. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be made with the objective of our expressing an opinion on the financial statements.

We will conduct our audit in accordance with Sri Lanka Auditing Standards (or refer to relevant other standards or practices). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

In addition to our report on the financial statements, we expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems which come to our notice.

We remind you that the responsibility for the preparation of financial statements including adequate disclosure is that of the management of the company. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the company.

As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our audit. Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus out of pocket expenses. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

This letter will be effective for future years unless it is terminated, amended or superseded.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the financial statements

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ABC Associates

Recurring Audits

If the same auditor/audit firm carry out an audit of a particular client for several years continuously, those audits are treated as Recurring Audits.

For recurring audits, Auditor may decide not to send the engagement letter annually. However, if following situations occurred, it is appropriate to send the engagement letter, despite whether it was sent previously.

- Any indication that the management has misunderstood the scope and objective of an audit
- A significant change in the ownership/Management of the Company in the current year, compare to previous years.
- A significant change in size or nature of the entity
- A change in laws or regulations
- A revision of a previously agreed terms and conditions

