

Auditing And Assurance

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The logo of Galgotias University is a stylized 'G' composed of three overlapping, curved segments in shades of yellow, blue, and red. The text 'Lecture -3' is centered over this logo.

Lecture -3

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Topics covered:

- Engagement letter
- Purpose of engagement letter
- Changes to the engagement letter
- Reasons for changes to engagement letter
- The contents of the engagement letter



Purpose of engagement letter

The engagement letter specifies the nature of the contract between the firm and client.

Its purpose is to:

- Minimize the risk of any misunderstanding between the practitioner and client
- Confirm acceptance of the engagement
- Set out the terms and conditions of the engagement.
- The letter will be **sent before the audit commences.**



Changes to the engagement letter

- The engagement letter should be **reviewed every year** to ensure that it is up to date but does not need to be reissued every year unless there are changes to the terms of the engagement.
- The auditor should issue a new engagement letter if the scope or context of the assignment changes



Reasons for changes would include:

- Changes to statutory duties due to new legislation
- Changes to professional duties, for example, due to new or updated ISAs
- Changes to other services as requested by the client.



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The contents of the engagement letter

The terms are recorded in a written audit engagement letter and should include:

- The objective and scope of the audit of the financial statements
- The responsibilities of the auditor
- The responsibilities of management
- Identification of the applicable financial reporting framework for the preparation of the financial statements
- Reference to the expected form and content of any reports to be issued by the auditor.

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In addition the following items will be included:

- Reference to professional standards, regulations and legislation applicable to the audit
- Limitations of an audit
- Expectation that management will provide written representations
- Basis on which the fees are calculated
- Agreement of management to notify the auditor of subsequent events after the auditor's report is signed
- Agreement of management to provide draft financial statements in time to allow the audit to be completed by the deadline
- Form (and timing) of any other communication during the audit.

Other matters that the engagement letter may cover include:

- Arrangements concerning the involvement of internal auditors and other staff of the entity
- Limitations to the auditor's liability.

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- The content of the engagement letter should be agreed with the client before any engagement related work commences.
- The client's acknowledgement of the terms of the letter should be formally documented in the form of a director's signature.

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References

- ACCA Study Material, F8 Kaplan Publishing
- Pic credit: www.istock.com



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