

RECOMMENDED PRACTICE GUIDE 8

**PROFORMA LETTER OF ENGAGEMENT - STATUTORY AUDIT
FOR
SINGLE ENTITY AND GROUP**

Commentary

The Council has approved the following guidance which sets out samples of audit engagement letters to be used as guidance in the preparation of engagement letters relating to audits of financial statements.

ISA 210, Terms of Audit Engagement establishes standards and provides guidance on

- (a) agreeing the terms of the engagement with the client; and
- (b) the auditor's response to a request by a client to change the terms of an engagement to one that provides a lower level of assurance.

The following sample of engagement letters are to be used as a guide in conjunction with considerations outlined in ISA 210 and should be varied according to individual requirements and circumstances.

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PROFORMA LETTER OF ENGAGEMENT - STATUTORY AUDIT (SINGLE ENTITY)

Date

The Board of Directors
[Name of Company]
[Address of Company]

Dear Sirs

Following our appointment as auditors of("Company"), we are pleased to confirm our acceptance and the terms of our engagement for the financial year ending.....

1. Responsibilities of Directors

- 1.1 As laid down in the Companies Act, 1965 ("Act"), the directors are responsible for the maintenance of the Company's accounting records and the preparation of annual financial statements which give a true and fair view in accordance with the Financial Reporting Standards¹ and comply with the Act.
- 1.2 The directors are also responsible for making available to us, as and when required, all the Company's accounting records and all other records and related information, including minutes of all management and shareholders' meetings.
- 1.3 Responsibility for the prevention and detection of fraud and error remains with the directors and management of the Company mainly through the implementation and continued operation of an adequate system of internal control.

2. Responsibilities of Auditors

- 2.1 The objectives of the audit are to examine in accordance with approved standards on auditing and report to the members of the Company on the financial statements produced by the directors. We shall, as required by the Act to report to the members of the Company whether in our opinion:
 - (a) the financial statements have been properly drawn up in accordance with the Financial Reporting Standards¹ and the Act so as to give a true and fair view of:
 - i) the financial position of the Company as at the balance sheet date; and
 - ii) the financial performance and the cash flow of the Company for the year ended on that date.
 - (b) the accounting and other records and registers of the Company have been properly kept in accordance with the provisions of the Act.

¹ Financial Reporting Standards is also known as Accounting Standards for Entities Other Than Private Entities. Where the entity uses Accounting Standards for Private Entities (or also known as Private Entity Reporting Standards), the words should be changed accordingly to reflect the accounting framework adopted by the entity.

- 2.2 In arriving at our opinion, we are required by the Act to consider the matters set out below and to state in our report particulars of any deficiency, failure or shortcoming arising thereof:
- (a) whether proper accounting records, other records and registers have been properly kept by the Company;
 - (b) whether the returns received from branch offices of the Company are adequate for the purpose of our audit; and
 - (c) whether we have obtained all the information and explanations which we required for the purpose of our audit.
- 2.3 In the course of our audit, we are required by law to report in writing to the Registrar of Companies if we are satisfied that:
- (a) there has been a breach or non-observance of any of the provisions of the Act;
 - (b) the circumstances are such that in our opinion the matter has not been or will not be adequately dealt with by comment in our report or by bringing the matter to the notice of the directors of the Company or, if the Company is a subsidiary, of the directors of its holding company; and
 - (c) a serious offence involving fraud or dishonesty is being or has been committed against the Company or this Act by officers of the Company.

3. Scope of Audit

- 3.1 Our audit will be conducted in accordance with approved standards on auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.
- 3.2 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 the directors, as well as evaluating the overall financial statements presentation.
- 3.3 The nature and extent of our procedures will vary according to our assessment of what is material in the context of the Company's financial statements, our assessment of the Company's accounting system and, where we wish to place reliance on it, the system's internal control, and may cover any aspect of the business's operations that we consider appropriate.
- 3.4 Our audit is not designed to identify all significant weaknesses in the Company's systems or matters of governance interest. However we shall bring to the attention of the board if such matters come to our notice during the course of our audit and shall report accordingly. We expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems or matters of governance interest that came to our notice.

- 3.5 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 some material misstatements, including those resulting from fraud and error, may remain undiscovered. Our audit should not be relied to disclose fraud and error that may exist.
- 3.6 Because our responsibility is to report on the financial statements as a whole, rather than those individual units or divisions, the nature and extent of our tests and enquiries at each unit or division will vary according to our assessment of its circumstances.
- 3.7 Our audit opinion is intended for the benefit of those to whom it is addressed. The audit will not be planned or conducted in contemplation of reliance by any third party or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.
- 3.8 As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.
- 3.9 Approved standards on auditing in Malaysia require that we read any annual report and other document that contains our audit opinion. We therefore request sight of all documents or statements, including the chairman's statement, operating and financial review and the directors' report, which are due to be issued with the financial statements. The purpose of reading the documents containing our audit opinion is to consider whether other information contained therein, including the manner of its presentation, is materially inconsistent with information appearing in the financial statements. We assume no obligation to perform procedures to verify such other information as part of our audit.
- 3.10 In order to assist us with the examination of your financial statements, we look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentation and other information requested in connection with our audit.

4. Confidentiality

- 4.1 The conduct of our audit in accordance with approved standards of auditing means that information acquired by us in the course of our audit is subject to strict confidentiality requirements.

4.2 Neither of us will disclose to any third party without the prior written consent of the other party any confidential information which is given, for the purposes of providing or receiving the services herein, by the other party. Information shall be deemed to be confidential which if disclosed in writing is marked confidential or if disclosed orally is confirmed in writing as being confidential or otherwise, is manifestly confidential ("Confidential Information"). This restriction will not apply to any information which:

- (a) is or becomes generally available to the public other than as a result of a breach of an obligation under this clause; or
- (b) is acquired from a third party who owes no obligation of confidence in respect of the information; or
- (c) is in possession of the receiving party without restriction before the date of receipt from the other party.; or
- (d) is or has been independently developed by the receiving party.

4.3 Notwithstanding the above, we may disclose any Confidential Information:

- (a) to our insurers or lawyers provided that the Confidential Information remains confidential; or

[Section 4.3(b): In the case of a network firm, the following paragraph to be inserted]

- (b) to other [name of firm] entities in relation to the provision of the services herein or to assist in quality reviews or for independence and conflict checks; or
- (c) if required to do so by law or rule or regulation applicable to us, provided that (and without breaching any legal or regulatory requirement) where reasonably practicable not less than [based on firm's policy] business days notice in writing is first given to you.

4.4 You agree that we may disclose, transfer and process Confidential Information as reasonably required for internal business purposes including client relationship management, account management, internal financial reporting, information technology ("IT") support (such as storage, hosting, maintenance, support, etc) including outsourcing of the same.

4.5 With respect to personal data:

- (a) that you provide to us, you confirm that processing such data in accordance with the terms of this letter will not place us in breach of any applicable data privacy legislation;
- (b) that we provide to you, you agree to keep such data confidential, secure and in accordance with any applicable data privacy legislation.

- 4.6 Subject to Clause 4.2 above and once the services herein and the deliverables herein have been provided, we may cite the performance of our services herein to our clients and prospective clients, or include a reference in other electronic or printed marketing materials or publications as an indication of our experience.

[Section 4.7: In the case of a network firm, the following paragraph to be inserted]

- 4.7 "[name of firm] entity(ies)" means any entity (whether or not incorporated) which carries on business under a name which includes all or part of the [name of firm] name or is otherwise within (or associated or connected with an entity within) or is a correspondent firm of the world-wide network of [name of firm] firms.

5. Other Matters

- 5.1 The working papers and files for this engagement created by us during the course of the audit, including electronic documents and files, are the sole property of our firm.
- 5.2 We shall not be liable in any way for failure or delay in performing our obligations under this engagement if the failure or delay is due to causes outside our reasonable control.

6. Governing Law and Jurisdiction

- 6.1 These terms of business shall be governed by and construed in accordance with the laws of Malaysia and any dispute arising out of this engagement or these terms shall be subject to the exclusive jurisdiction of the Malaysian courts.

[Section 7: In the case of a listed company, the following paragraphs to be inserted]

7. Capital Market and Services Act 2007 ("CMSA")

- 7.1 In the course of the performance of duties as auditors of the Company, if the auditors, is of the professional opinion that there has been a breach or non-performance of any requirement or provision of the securities laws, a breach of any of the rules of the stock exchange or any matter which may adversely affect to a material extent the financial position of the company come to our attention, Section 320 of the CMSA requires us to immediately submit a written report on the matter:
- (a) in the case of a breach or non-performance of any requirement or provision of the securities laws, to the Securities Commission, established under the Securities Commission Act, 1993 ("the Commission");
 - (b) in the case of a breach or non-performance of any of the rules of a stock exchange, to the relevant stock exchange and the Commission; or

- (c) in any other case which adversely affects to a material extent the financial position of the company, to the relevant stock exchange and the Commission.

7.2 We shall not be liable to be sued in any court for any report submitted by us in good faith and in the intended performance of any duty imposed on us under this section.

7.3 Under subsection (3) of Section 320 of the CMAA, the Commission may, at any time, during or after the audit require us to:

- (a) submit such additional information in relation to this audit as the Commission may specify;
- (b) enlarge or extend the scope of this audit of the business and affairs of the company in such manner or to such extent as the Commission may specify;
- (c) carry out any specific examination or establish any procedure in any particular case;
- (d) submit a report on any matter referred to in paragraphs (a) to (c); or
- (e) submit an interim report on any matter referred to in paragraphs (a) to (d),

and the Commission may specify the time within which any of such requirements shall be complied with by us and may specify the remuneration which the company shall pay to us in respect thereof.

7.4 We shall comply with any requirement of the Commission under subsection (3) and the company shall remunerate us in respect of the discharge by us of all or any of the additional duties under this section.

7.5 The company shall provide such information and access to such information as we shall require in respect of the discharge by us of all or any of the additional duties under this section.

8. Fees

8.1 Our fees are based upon the degree of responsibility and skill involved and the time spent by the partners and our staff necessarily occupied on the work, and shall be reviewed from time to time. The fees will be billed as work progresses and shall include all disbursements and other out-of-pocket expenses. The invoice will be due on presentation.

9. Agreement of Terms

9.1 Once it has been agreed, this letter will remain effective for subsequent reappointment unless it is terminated, amended or superseded. We shall be grateful if you would confirm your agreement to the terms of this letter by signing and returning the duplicate copy.

9.2 If the contents are not in agreement with your understanding of our term of engagement, we shall be pleased to receive your comments and to give you any further information you require.

Yours faithfully

(Engagement Partner's Signature)

Acknowledged, and in agreement with the terms of engagement as set out above:

(Client Representative's Signature)

(Title)

(Date)

PROFORMA LETTER OF ENGAGEMENT - STATUTORY AUDIT (GROUP)

Date

The Board of Directors
[Name of Company]
[Address of Company]

Dear Sirs

Following our appointment as auditors of("Company"), with responsibilities to report on the audited financial statements of the Company as well as the audited consolidated financial statements of the Company and its subsidiaries ("the Group"), we are pleased to confirm our acceptance and the terms of our engagement for the financial year ending.....

1. Responsibilities of Directors

- 1.1 As laid down in the Companies Act, 1965 ("Act"), the directors are responsible for the maintenance of the Company's accounting records and the preparation of annual financial statements which give a true and fair view in accordance with the Financial Reporting Standards¹ and comply with the Act.
- 1.2 The directors are also responsible for making available to us, as and when required, all the Company's accounting records and all other records and related information, including minutes of all management and shareholders' meetings.
- 1.3 Responsibility for the prevention and detection of fraud and error remains with the directors and management of the Company and its subsidiaries mainly through the implementation and continued operation of an adequate system of internal control.
- 1.4 Directors of a holding company have an additional responsibility under the Act to prepare consolidated financial statements consisting of the holding company and its subsidiaries.

2. Responsibilities of Auditors

- 2.1 The objectives of the audit are to examine in accordance with approved standards on auditing and report to the members of the Company on the financial statements produced by the directors. We shall, as required by the Act to report to the members of the Company whether in our opinion:

¹ Financial Reporting Standards is also known as Accounting Standards for Entities Other Than Private Entities. Where the entity uses Accounting Standards for Private Entities (or also known as Private Entity Reporting Standards), the words should be changed accordingly to reflect the accounting framework adopted by the entity.

- (a) the financial statements have been properly drawn up in accordance with the Financial Reporting Standards¹ and the Act so as to give a true and fair view of:
 - i) the financial position of the Group and the Company as at the balance sheet date; and
 - ii) the financial performance the cash flows of the Group and the Company for the year ended on that date.
- (b) the accounting and other records and registers of the Company and the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

2.2 We are also required by the Act to state in our report to the members whether:

- (a) we have considered the financial statements and the auditor's reports of those subsidiaries of which we have not acted as auditors;
- (b) we are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes; and
- (c) the auditors' report on the financial statements of any subsidiary was made subject to any qualification (other than a qualification that is not material in relation to the consolidated financial statements), or included any comment made under subsection (3) of Section 174 of the Act and, if so, to state particulars of the qualification or comment.

2.3 In arriving at our opinion, we are required by the Act to consider the matters set out below and to state in our report particulars of any deficiency, failure or shortcoming arising thereof:

- (a) whether proper accounting records, other records and registers have been properly kept by the Company;
- (b) whether the returns received from branch offices of the Company are adequate for the purpose of our audit;
- (c) whether we have obtained all the information and explanations which we required for the purpose of our audit; and
- (d) whether the procedures and methods used by the Company or its subsidiaries in arriving at the amount taken into any consolidated financial statements were appropriate to the circumstances of the consolidation.

2.4 In the course of our audit, we are required by law to report in writing to the Registrar of Companies if we are satisfied that:

- (a) there has been a breach or non-observance of any of the provisions of the Act;
- (b) the circumstances are such that in our opinion the matter has not been or will not be adequately dealt with by comment in our report or by bringing the matter to the notice of the directors of the Company or, if the Company is a subsidiary, of the directors of its holding company; and

- (c) a serious offence involving fraud or dishonesty is being or has been committed against the Company of this Act by officers of the Company.

3. Scope of Audit

- 3.1 Our audit will be conducted in accordance with approved standards on auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.
- 3.2 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 the directors, as well as evaluating the overall financial statements presentation.
- 3.3 The nature and extent of our procedures will vary according to our assessment of what is material in the context of the Company's financial statements, our assessment of the Company's accounting system and, where we wish to place reliance on it, the system's internal control, and may cover any aspect of the business's operations that we consider appropriate.
- 3.4 Our audit is not designed to identify all significant weaknesses in the Company's systems or matters of governance interest. However we shall bring to the attention of the board if such matters come to our notice during the course of our audit and shall report accordingly. We expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems or matters of governance interest that came to our notice.
- 3.5 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 some material misstatements, including those resulting from fraud and error, may remain undiscovered. Our audit should not be relied to disclose fraud and error that may exist.
- 3.6 Because our responsibility is to report on the financial statements as a whole, rather than those individual units or divisions, the nature and extent of our tests and enquiries at each unit or division will vary according to our assessment of its circumstances.
- 3.7 Our audit opinion is intended for the benefit of those to whom it is addressed. The audit will not be planned or conducted in contemplation of reliance by any third party or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.
- 3.8 As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

- 3.9 Approved standards on auditing in Malaysia require that we read any annual report and other document that contains our audit opinion. We therefore request sight of all documents or statements, including the chairman's statement, operating and financial review and the directors' report, which are due to be issued with the financial statements. The purpose of reading the documents containing our audit opinion is to consider whether other information contained therein, including the manner of its presentation, is materially inconsistent with information appearing in the financial statements. We assume no obligation to perform procedures to verify such other information as part of our audit.
- 3.10 In order to assist us with the examination of your financial statements, we look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentation and other information requested in connection with our audit.
- 3.11 As auditors of the holding company, in accordance with the Act and professional standards, we accept full responsibility for our opinion on the consolidated financial statements. To fulfil this responsibility, it will be necessary for us, with management's cooperation and full support, to carry out certain procedures on the work performed by the auditors of any group companies where we have not been appointed.

4. Confidentiality

- 4.1 The conduct of our audit in accordance with approved standards of auditing means that information acquired by us in the course of our audit is subject to strict confidentiality requirements.
- 4.2 Neither of us will disclose to any third party without the prior written consent of the other party any confidential information which is given, for the purposes of providing or receiving the services herein, by the other party. Information shall be deemed to be confidential which if disclosed in writing is marked confidential or if disclosed orally is confirmed in writing as being confidential or otherwise, is manifestly confidential ("Confidential Information"). This restriction will not apply to any information which:
- (a) is or becomes generally available to the public other than as a result of a breach of an obligation under this clause; or
 - (b) is acquired from a third party who owes no obligation of confidence in respect of the information; or
 - (c) is in possession of the receiving party without restriction before the date of receipt from the other party.; or
 - (d) is or has been independently developed by the receiving party.
- 4.3 Notwithstanding the above, we may disclose any Confidential Information:
- (a) to our insurers or lawyers provided that the Confidential Information remains confidential; or

[Section 4.3(b): In the case of a network firm, the following paragraph to be inserted]

- (b) to other [name of firm] entities in relation to the provision of the services herein or to assist in quality reviews or for independence and conflict checks; or
- (c) if required to do so by law or rule or regulation applicable to us, provided that (and without breaching any legal or regulatory requirement) where reasonably practicable not less than [based on firm's policy] business days notice in writing is first given to you.

4.4 You agree that we may disclose, transfer and process Confidential Information as reasonably required for internal business purposes including client relationship management, account management, internal financial reporting, information technology ("IT") support (such as storage, hosting, maintenance, support, etc) including outsourcing of the same.

4.5 With respect to personal data:

- (a) that you provide to us, you confirm that processing such data in accordance with the terms of this letter will not place us in breach of any applicable data privacy legislation;
- (b) that we provide to you, you agree to keep such data confidential, secure and in accordance with any applicable data privacy legislation.

4.6 Subject to Clause 4.2 above and once the services herein and the deliverables herein have been provided, we may cite the performance of our services herein to our clients and prospective clients, or include a reference in other electronic or printed marketing materials or publications as an indication of our experience.

[Section 4.7: In the case of a network firm, the following paragraph to be inserted]

4.7 "[name of firm] entity(ies)" means any entity (whether or not incorporated) which carries on business under a name which includes all or part of the [name of firm] name or is otherwise within (or associated or connected with an entity within) or is a correspondent firm of the world-wide network of [name of firm] firms.

5. Other Matters

5.1 The working papers and files for this engagement created by us during the course of the audit, including electronic documents and files, are the sole property of our firm.

5.2 We shall not be liable in any way for failure or delay in performing our obligations under this engagement if the failure or delay is due to causes outside our reasonable control.

6. Governing Law and Jurisdiction

- 6.1 These terms of business shall be governed by and construed in accordance with the laws of Malaysia and any dispute arising out of this engagement or these terms shall be subject to the exclusive jurisdiction of the Malaysian courts.

[Section 7: In the case of a listed company, the following paragraphs to be inserted]

7. Capital Market and Services Act 2007 ("CMSA")

- 7.1 In the course of performance of duties as auditors of the Group, if the auditors, is of the professional opinion that there has been a breach or non-performance of any requirement or provision of the securities laws, a breach of any of the rules of the stock exchange or any matter which may adversely affect to a material extent the financial position of the company come to our attention, Section 320 of the Capital Market and Services Act 2007 ("CMSA") requires us to immediately submit a written report on the matter:

- (a) in the case of a breach or non-performance of any requirement or provision of the securities laws, to the Securities Commission, established under the Securities Commission Act, 1993 ("the Commission");
- (b) in the case of a breach or non-performance of any of the rules of a stock exchange, to the relevant stock exchange and the Commission; or
- (c) in any other case which adversely affects to a material extent the financial position of the company, to the relevant stock exchange and the Commission.

- 7.2 We shall not be liable to be sued in any court for any report submitted by us in good faith and in the intended performance of any duty imposed on us under this section.

- 7.3 Under subsection (3) of Section 320 of the CMSA, the Commission may, at any time, during or after the audit require us to:

- (a) submit such additional information in relation to this audit as the Commission may specify;
- (b) enlarge or extend the scope of this audit of the business and affairs of the company in such manner or to such extent as the Commission may specify;
- (c) carry out any specific examination or establish any procedure in any particular case;
- (d) submit a report on any matter referred to in paragraphs (a) to (c); or
- (e) submit an interim report on any matter referred to in paragraphs (a) to (d),

and the Commission may specify the time within which any of such requirements shall be complied with by us and may specify the remuneration which the company shall pay to us in respect thereof.

- 7.4 We shall comply with any requirement of the Commission under subsection (3) and the company shall remunerate us in respect of the discharge by us of all or any of the additional duties under this section.

7.5 The company shall provide such information and access to such information as we shall require in respect of the discharge by us of all or any of the additional duties under this section.

8. Fees

8.1 Our fees are based upon the degree of responsibility and skill involved and the time spent by the partners and our staff necessarily occupied on the work, and shall be reviewed from time to time. The fees will be billed as work progresses and shall include all disbursements and other out-of-pocket expenses. The invoice will be due on presentation.

9. Agreement of Terms

9.1 Once it has been agreed, this letter will remain effective for subsequent reappointment unless it is terminated, amended or superseded. We shall be grateful if you would confirm your agreement to the terms of this letter by signing and returning the duplicate copy.

9.2 If the contents are not in agreement with your understanding of our term of engagement, we shall be pleased to receive your comments and to give you any further information you require.

Yours faithfully

(Engagement Partner's Signature)

Acknowledged, and in agreement with the terms of engagement as set out above:

(Client Representative's Signature)

(Title)

(Date)