Sample Audit Engagement Letter

July 2012
Points to Note:

1. Care should be taken to ensure that the text is tailored according to the particular circumstances of the agreement with your client.

2. Please refer to ISA 210 “Agreeing the terms of audit engagements” (Effective for audits of financial statements for periods ending on or after 15 December 2010).

3. Members are reminded of the requirements under Anti-Money Laundering Regulation to identify clients. They are also reminded that for pre 2005 clients the required Due Diligence for Anti-Money Laundering purposes needs to be completed at the start of the audit engagement.

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Care should be taken to ensure that engagement letters are tailored to suit each assignment.

ABC & Co.,
Certified Public Accountants and Statutory Audit Firm,
Thomas Street,
Dublin 2.

Mack Cars Limited,
Johns Street,
Dublin 2.

December 2012

Dear Sirs,

The purpose of this letter is to set out the basis on which we act as auditors of the company and the respective areas of responsibility of the company and of ourselves.

This letter and Appendices shall apply in respect of the statutory audit and services for the year/period ended and to subsequent periods unless otherwise agreed in writing and to other work associated with or incidental to any of the services performed under this letter.

Audit

Duties and responsibilities of directors:

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance] acknowledge and understand that they have responsibility:

a) For maintaining proper accounting records and preparing financial statements which give a true and fair view and comply with the Companies Acts 1963 to 2012.

b) For the preparation and fair presentation of the financial statements in accordance with [International Financial Reporting Standards] or [the accounting standards issued by the Accounting Standards Board (Generally Accepted Accounting Practice in Ireland)], and for preparing them such that those financial statements give a true and fair view of the state of affairs of the Company as at the end of its financial year and of its profit or loss for that financial year.

c) For such internal control as [management] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

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d) To provide us with:

(i) Access to company accounting records and all information of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

(ii) Additional information that we may request from [management] for the purpose of the audit; and

(iii) 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.

You are also required to inform us of any material event occurring between the date of our report and that of the AGM which may affect the financial statements.

Duties and Responsibilities of auditors:

We have a statutory responsibility to report to the [members] whether in our opinion the financial statements give a true and fair view of the state of the company’s affairs and of the profit and loss for the year and whether they comply with the Companies Acts 1963 to 2012.

In arriving at our opinion, we are required to consider the following matters, and to report on any in respect of which we are not satisfied;

(a) whether proper accounting records have been kept by the company.

(b) whether the company's balance sheet and profit and loss account are in agreement with the accounting records and returns;

(c) whether we have obtained all the information and explanations which we think necessary for the purpose of our audit;

(d) whether the information in the directors’ reports is consistent with that in the audited financial statements; and

(e) Whether there existed at the balance sheet date a financial situation which, under section 40(1) of the Companies (Amendment) Act 1983, would require the convening of an extraordinary general meeting of the company.

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In addition, there are certain other matters which according to the circumstances, may need to be dealt with in our report. For example, where the financial statements do not give full details of directors’ remuneration or of transactions with the company, the Companies Act, 1990 requires us to disclose such matters in our report.

We have a responsibility to report if the financial statements do not comply in any material respect with applicable accounting standards unless a departure is considered justified by considering:

- Whether the departure is required in order for the financial statements to give a true and fair view; and
- Whether adequate disclosure has been made concerning the departure.

As noted above, our report will be made solely to the company’s [members], as a body, in accordance with the Companies Acts 1963-2012. Our audit work will be undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. In those circumstances, to the fullest extent permitted by law, we will not accept or assume responsibility to anyone other than the company and the company’s [members] as a body for our audit work, for the audit report, or for the opinions we form. The form and content of our report may need to be amended in light of our audit findings.

We also have a responsibility under the Companies Act, 1990 to serve notice on the company if we form an opinion that the company is contravening Section 202 of the Act in relation to the maintenance of proper books of account. Where, following receipt of notice of such a contravention, you do not take steps within 7 days to ensure that proper books of account are kept we have a duty to notify the Companies Registration Office.

We will express an unqualified opinion when the financial statements give a true and fair view in accordance with the financial reporting framework. Any modification to this unqualified audit opinion will be expressed in our auditor’s report and in the audit findings letter.

**Additional Legal Responsibilities**

We as auditors have a statutory duty to report certain matters as follows:

- the Company Law Enforcement Act requires that where we become aware of possible indictable offences under the Companies Acts we report the matters concerned to the Director of Corporate Enforcement;

- the Criminal Justice (Theft and Fraud Offences) Act 2001 requires that where we become aware that an offence, as detailed in the Act, may have been committed that we report same to the Garda Siochana; and

- the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 requires that where we have a suspicion that a money laundering offence or terrorist financing has been committed that we report the matter to the Garda Siochana and to the Revenue Commissioners.

- the Criminal Justice Act 2011 requires that where we have a suspicion that a listed offence has been committed that we report the matter to the Garda Siochana.

We shall endeavour, where appropriate and permitted by law, to liaise with you prior to making any report under these Acts.

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Objective and scope of our audit:

We have been requested to audit the financial statements of [XXXX], which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

Our audit will be conducted in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and will have regard to relevant Auditing Guidelines, regulations and recommendations issued by the auditing practices board and other professional bodies to the extent relevant. Furthermore, it will be conducted in such a manner as we consider necessary to fulfil our responsibilities and will include such tests of transactions and of the existence, ownership and valuation of assets and liabilities as we consider necessary.

We shall obtain an understanding of the accounting and internal control system in order to assess its adequacy as a basis for the preparation of the financial statements and to establish whether proper accounting records have been maintained. We shall expect to obtain such relevant and reliable evidence as we consider sufficient to enable us to draw reasonable conclusions therefrom.

We appreciate that the present size of your business renders it uneconomic to create a system of internal control based on the segregation of duties for different functions within each area of the business. In the running of your company we understand that the directors are closely involved with the control of the company's transactions. In planning and performing our audit work we shall take account of the supervision. Further, we may ask additionally for confirmation in writing that all the transaction undertaken by the company have been properly reflected and recorded in the accounting records, and our audit report on your company's financial statements may refer to this confirmation.

The nature and extent of our tests will vary according to our assessment of the company's accounting system and, may cover any aspect of the business operations. We shall report to you any significant deficiency in our observations on, the company's systems which come to our notice and which we think should be brought to your attention.

As part of our normal audit procedures, we may request you to provide written confirmation of oral representations that we have received from you during the course of the audit for example those which are significantly dependent on judgement. Under Section 193 (3), 196 and 197 of the Companies Act 1990 it is an offence for an officer of the company to mislead the auditors.

In order to assist us with the examination of your financial statements, we shall request sight of all documents or statements, including the directors' report, which are due to be issued with the financial statements. We are also entitled to attend all General meetings of the company and to receive notice of all such meetings.

The responsibility for the safeguarding of assets and for the prevention and detection of irregularities and fraud rests with the directors of the company. While, we shall endeavour to plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records resulting from irregularities and frauds which may exist, our examination cannot be relied upon to disclose all such material misstatements, frauds or irregularities as may exist.

In order to ensure that there is effective two-way communication between us we set out below the expected form and timing of communications.

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- We shall contact you prior to each year-end for preliminary discussions concerning the audit.

- We will discuss any matters arising from the audit with you after completing our on-site work.

The formal communications set out above are the minimum required to comply with auditing standards. We shall of course contact you on a more frequent and regular basis regarding both audit and other matters. Communications will be via telephone, letter or a meeting as appropriate.

**Accounting [To be updated based on accounting services provided to your client]**

It is agreed that we should carry out the following services on the basis that you will make full disclosure to us of all relevant information.

We shall:

1. prepare the financial statements based on accounting records maintained by yourselves;
2. provide assistance to the company secretary by preparing and lodging returns with the Registrar of Companies.

To allow us to carry out these services all books, records and explanations requested by us must be submitted to us on a timely basis. To allow us to assist you in preparing returns for the Registrar of Companies it is necessary that the directors of the company have taken the steps to ensure that audited abridged accounts will be available to be annexed to the relevant statutory return within nine months of the financial year-end.

The directors are requested to note that the company will incur additional late filing penalties if the relevant financial statements are not made available for submission to the Companies Registration Office on time.

It is agreed that the directors of the company are primarily responsible to ensure that the company complies with the provisions of the Companies Acts 1963 to 2012 and will if necessary seek proper legal advice and record all decisions of the directors and members in minute books maintained for that purpose.

**Taxation services [To be updated based on taxation services provided to your client]**

It is agreed that we shall act as taxation agents. In respect of each accounting period we shall prepare a computation of profits, adjusted in accordance with the provisions of the Taxes Acts, for the purpose of assessment to corporation tax. Subject to your approval, this will then be submitted to the Inspector of Taxes as being the company's formal return.
We shall lodge formal notice of appeal against excessive or incorrect assessments to corporation tax where notice of such assessment is received by us. Where appropriate, we shall also make formal application for postponement of tax in dispute and shall advise as to appropriate payments on account.

You will be responsible, unless otherwise agreed, for all other returns, more particularly: Income Tax deducted at source, returns relating to employee taxes under PAYE and returns of employees expenses and benefits on Forms P11D. Your staff will deal with all returns and other requirements in relation to Value Added Tax.

We shall be pleased to advise you on matters relating to the company's Corporation Tax liability, the implications of particular business transactions and on other taxation matters which you refer to us, such as Social Insurance, Income Tax deducted at source, employee benefits, Capital Gains Tax, Value Added Tax and Capital Acquisitions Tax.

**Legal Responsibilities Regarding Taxation**

We must report material relevant offences (as defined in Section 1079 of the Taxes Consolidation Act 1997) to the director of the company in writing, requesting them to rectify the matter, or notify an appropriate officer of the Revenue Commissioners of the offence, within 6 months. In the event that our request is not complied with, we must cease to act as auditor to the company or to assist the company in any taxation matter.

We must also send a copy of our notice of resignation to an appropriate office of the Revenue Commissioners within 14 days.

**Fees**

Our fees are computed on the basis of the time spent on your affairs by the partners and our staff, and on the levels of skill and responsibility involved together with any expenses properly incurred and VAT. Unless otherwise agreed, our fees will be billed at appropriate intervals during the course of the year and will be due on presentation.

**Confidential Information**

We shall not disclose, to third parties, confidential information acquired in the course of our professional work without your consent unless there is a legal right or duty to disclose. We are obliged under the regulations of our Institute to make all files available for inspection in the course of a routine practice review.

**Termination of the engagement:**

Where the engagement is terminated the statutory provisions governing removal or resignation of auditors under Section 160 or Section 185 of the Companies Act, 1963 shall apply.

Where, during the period between the conclusion of the last Annual General Meeting and the conclusion of the next Annual General Meeting, we as auditors cease to hold office, either by virtue of section 160 of the Companies Act, 1963 (removal) or section 185 of the Companies Act, 1990 (resignation), we as auditors cease to hold office, we have a duty to be notify Irish Auditing and Accounting Supervisory Authority within 1 month after the date of cessation.

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Agreement of Terms

Once it has been agreed, this letter will remain effective, from one audit appointment to another, until it is replaced. We shall be grateful if you could confirm in writing your agreement to the terms of this letter, by signing and returning the enclosed copy of this letter, or let us know if they are not in accordance with your understanding of our terms of appointment.

Yours faithfully,

_______________________
ABC and Company

We agree to the terms of this letter.

____________________________________
Signed for and on behalf of [Client Name]