### [2.3.6 AUDIT ENGAGEMENT LETTER](file:///C%3A%5CDOCUME~1%5CADELE%5CLOCALS~1%5CTEMP%5CTM_TEMP%5CTM_2%5CPA2.A%20-%20BOTSWANA%20BASIC%202007%20-%206-5-2007.DOC#_Preparing_an_engagement_letter (Ref#_Preparing_an_engagement_letter (Ref)

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| --- | --- | --- | --- | --- | --- |
| **Auditee:** |  | **Reviewed by:** | **Name** | **Rank** | **Date** |
| **Period end:** |  | **Level 1** |  |  |  |
| **Prepared by:** |  | **Level 2** |  |  |  |
| **Rank:** |  | **Level 3** |  |  |  |
| **Date:** |  | **Date:** |  |  |  |

***LETTERHEAD OF THE SAI***

**Audit of the *[insert name of audited entity]* performed by the Auditor General**

Addressee *[Applicable title of the accounting officer]*

Date

Dear Sir / Madam

The financial statements of *[Insert the name of the audited entity]* for the year ended *[insert relevant date]* are subject to audit by the *[Auditor General or other applicable title]* in terms of *[Refer to the relevant section of the act]*.

The purpose of this letter is to outline:

* The terms of the audit engagement and the nature, and limitations, of the annual audit
* The respective responsibilities of the auditor and the management of the *[insert name of audited entity]* in the annual audit.
* The terms of the audit engagement are set out below. This letter will remain effective until a new audit engagement letter is issued.

**Objective(s) of the audit**

The objective(s) of the annual audit are:

To express an independent opinion on the financial statements prepared in accordance with *[the applicable financial reporting framework]* and legislation. These financial statement comprise the *[insert statements as applicable i.e. statement of financial performance, statement of financial position, cash flow statement etc.]* for the year then ended, and a summary of significant accounting policies and other explanatory information.

*[Insert any additional audit objectives e.g. the evaluation of compliance with authorities or internal controls, where applicable]*

This letter sets forth our understanding of the terms and objectives of our engagement, and the nature and scope of the services we will provide. Our audit will be conducted with the objective of our expressing an opinion on the financial statements as well as the compliance with relevant laws and regulations applicable to financial matters *[also refer to any other reporting responsibilities if any]*.

**Responsibilities of the auditor**

Our audit will be conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements or compliance with all applicable legislation.  *[Where applicable, include reference to the SAI’s policy to report on amounts of projected errors / misstatements]*

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 the International Standards on Auditing.

In making our risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 report or 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.

While our audit is not directed to reporting the following, we will report these items if we become aware of them during the course of the audit:

* Non-effective performance of operations – relates to management’s responsibility to undertake activities in an effective and efficient manner.
* Instances of non-compliance with authorities – relates to management’s responsibility to undertake activities, use resources, and fulfill accountability requirements, in accordance with authority granted by the legislature and all other relevant directions.
* Waste – relates to management's responsibility to obtain and apply resources in an economical manner, without any public money being wasted.
* Instances of abuse – relates to management's responsibility to meet the expectations of the legislature and the public as they relate to appropriate standards of behavior.

**Responsibilities of management**

Our audit will be conducted on the basis that management has responsibility:

* To prepare financial statements in accordance with *[insert relevant financial reporting framework]* and in the manner required by *[Insert section and title of relevant act]*.
* To establish and maintain internal controls necessary to:
	+ Enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
	+ Provide reasonable assurance that adopted policies and prescribed procedures are adhered to and errors and irregularities, including fraud and illegal acts are prevented or detected.
* To provide us with access to:
	+ All information which is relevant to the preparation of the financial statements such as records, documentation and other matters;
	+ Any additional information that we may request from management for the purpose of the audit; and
	+ 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.

The following are the key deliverables and target dates that should be met by both parties:

|  | **Activity** | **Responsibility** | **Target date** |
| --- | --- | --- | --- |
| 1. | Meeting between the SAI and the management of the audited entity to discuss the Overall Audit Strategy. | *[Management of the audit team and the audited entity at relevant levels]* |  |
| 2. | Request information from audited entity. | Audit Manager |  |
| 3. | Submit information requested for audit. | Management of the audited entity |  |
| 4. | Issue interim management letter to audited entity. *[if applicable]*  | Audit Manager |  |
| 5. | Submit written response to interim management letter to the SAI. *[if applicable]* | Accounting Officer |  |
| 6. | Meeting between the SAI and the management of the audited entity to discuss the management letter findings. | *[Management of the audit team and the audited entity at relevant levels]* |  |
| 7. | Submit financial statements and supporting file (Trial balance, lead schedules, ledger) to auditors. | Management of the audited entity |  |
| 8. | Issue management representation letter. | Accounting Officer |  |
| 9. | Issue final management letter. | Audit Manager |  |
| 10. | Submit written response to management letter to the SAI. | Accounting Officer |  |
| 11. | Meeting between the SAI and management of the audited entity to discuss the management letter findings. | *[Management of the audit team and the audited entity at relevant levels]* |  |
| 12. | Issue approved audit opinion to audited entity.  | Audit Manager |  |

**Fees *[Only applicable if any audit fees or allowances are recovered from the auditee – delete when not applicable]***

Our fees are based on the time spent on your affairs by our managers and staff, and on the levels of skills and responsibility involved. Our fees will be billed at monthly intervals during the course of the audit and settlement is due within 30 days of the date of invoice.

**Agreement to terms**

This letter will remain effective until it is replaced. We shall be grateful if you could confirm your agreement to the terms of this letter by signing and returning the enclosed copy, or let us know if the terms of our engagement are not in accordance with your understanding.

We look forward to full cooperation from your staff during our audit.

Yours faithfully

**....................................**

*For* Auditor General

Enquiries: Name and surname

Telephone: (xxx) xxx xxxx

Email:

**Acknowledgement of terms of the audit engagement**

The terms of this audit engagement are acknowledged and agreed by *[designation of person signing]* on behalf of the *[name of entity]*.

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Signed

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Name and position Date