

Lessons from the PAB/ ICAJ Practice Monitoring Programme

IMPORTANCE OF ENGAGEMENT LETTERS

IMPORTANCE OF ENGAGEMENT LETTERS

In Summary.....

THE BENEFITS OF THE ENGAGEMENT LETTER ARE IT ENSURES YOUR:

- PROTECTION;

As the profession comes under increasing attacks, the possibility that any of us will need to face the ICAJ and eventually the PAB Investigation Committees and then COURT become greater and greater!! Which of us wants to set ourselves up to fail when we need to fight a client claim for professional negligence all due to differences in client expectation and professional standards??

I would venture to say, none!!

- COMPLIANCE WITH ISA 210;

We all seek to ensure compliance particularly as of one year ago, we all seek to clear those “Monitoring Visits”.

- YOUR COMPLIANCE WITH POCA REQUIREMENTS FOR CLIENT IDENTIFICATION;

We all want to make sure that should attention swing onto any of us because we inadvertently commence doing business with entities or individuals who come under the scrutiny of the government fraud entities that our documentation is pristine.

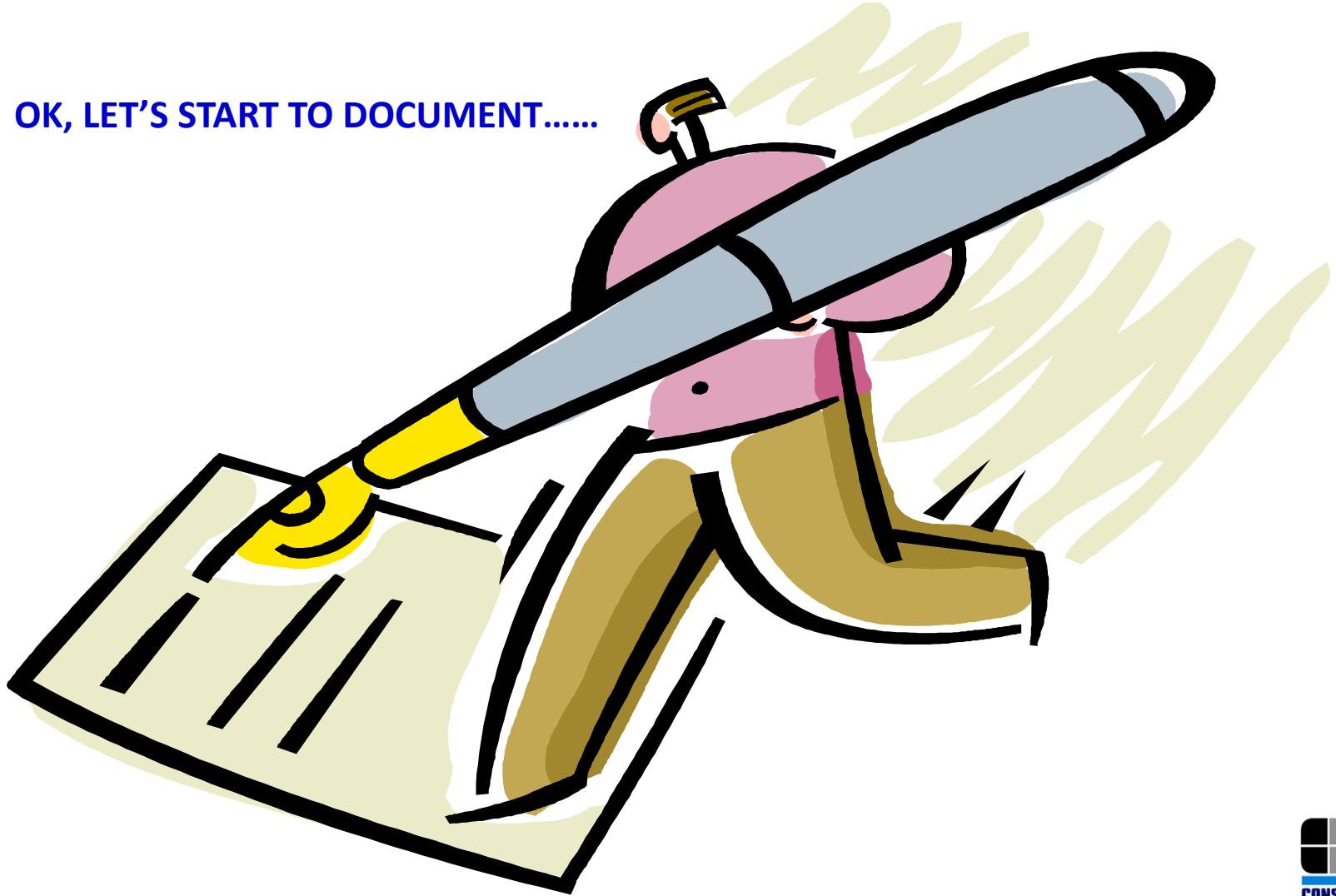
- COMPLIANCE WITH ICAJ INCOMING REQUIREMENT TO CARRY PROFESSIONAL INDEMNITY INSURANCE OR PII ADOPTED IN 7/2012 AGM;

For those of us practitioners who are also ICAJ and ACCA practising members, the burden of additional insurance costs ensures that we continuously remind ourselves of the need to ensure that any claim brought against us as professionals are capable of being successfully fought and recovered.



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OK, LET'S START TO DOCUMENT.....



IMPORTANCE OF ENGAGEMENT LETTERS

Some of the areas deemed essential by ISA 210 for inclusion within the Engagement Letter:

- THE RESPONSIBILITIES OF THE AUDITOR
- THE RESPONSIBILITIES OF THE CLIENT
- SCOPE OF SERVICE
- CONFIDENTIALITY & WORKING PAPERS
- MODES OF COMMUNICATION
- FEE STRUCTURE & ARRANGEMENTS
- CONFIRMATION

IMPORTANCE OF ENGAGEMENT LETTERS

It is in the interest of both the entity and the auditor that the auditor sends an audit engagement letter before the commencement of the audit to help avoid misunderstandings with respect to the audit:

THE RESPONSIBILITIES OF THE AUDITOR

The firm will conduct the audit in accordance with International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC) and adopted by the Institute of Chartered Accountants of Jamaica (ICAJ). 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 any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

IMPORTANCE OF ENGAGEMENT LETTERS

THE RESPONSIBILITIES OF THE AUDITOR (continued)

- In conducting our audit we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We will also assess the accounting principles used and significant estimates made by management, as well as evaluate the overall presentation of the financial statements.
- In arriving at our opinion, we are required to consider the following matters and report on any in respect of which we are not satisfied.
 - Whether proper accounting records have been maintained by the company
 - Whether the company's financial statements are in agreement with accounting records
 - Whether we have obtained all the information and explanations which we consider necessary for the purpose of our audit ; and
 - Whether the financial statements give a true and fair view of the company's financial position, results of operations, and cash flows
- The report will be addressed to the members of the company. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise to which it is necessary for us to modify our report or withdraw from the engagement. In such circumstances, our findings or reasons for withdrawal will be communicated to the board of directors.

IMPORTANCE OF ENGAGEMENT LETTERS

THE RESPONSIBILITIES OF THE CLIENT

As directors of XX Company Limited, you are responsible for ensuring that the company maintains proper books of accounts and for preparing financial statements which give a true and fair view and have been prepared in accordance with International Financial Reporting Standards. The directors and senior management of the company have responsibility for the financial statements and all disclosures and representations contained therein.

The directors are responsible for ensuring the financial statements give a true and fair view and are properly prepared in accordance with applicable accounting standards. Management also has responsibility for maintaining proper accounting records, the adoption and application of sound accounting policies and the implementation of systems of record keeping and internal control which maintain reliability of the financial statements, safeguard the company's assets and provide reasonable assurance against the possibility of misstatements that are material to the financial statements.

The directors are responsible for making available to us, as and when required, all the company's books of account and all other relevant records and related information, including minutes of all management and shareholders' meetings. You are responsible also, to provide access to all necessary personnel, respond to requests from the CPH Consulting team within the agreed timelines; provide responses to our inquiries about the representations embodied in the financial statements and the effectiveness of internal controls, and obtain a representation letter from management about these matters. Responses to our inquiries, the written representations, and the result of audit tests comprise evidential matter we will rely upon in forming an opinion on the financial statements.

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THE RESPONSIBILITIES OF THE CLIENT

With respect to fraud and error ISA 240 (Revised) “the Auditors Responsibility to consider Fraud in an audit of Financial Statements” requires that we obtain written representation from management that:

- It acknowledges its responsibility for the design and implementation of Internal Control to prevent and detect fraud;
- It has disclosed to us the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- It disclose to us knowledge of fraud or suspected fraud affecting the financial statements involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements, and disclose to us knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analyst, regulators, or others.

These specific items will be included in our request for written confirmation concerning representations made to us in connection with the audit



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THE RESPONSIBILITIES OF THE CLIENT

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.



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SCOPE OF SERVICE

- To the extent that they come to our attention, we will inform management about any material errors and any instances of fraud or illegal acts. Further, to the extent that they come to our attention, we will inform the Board of Directors about fraud and illegal acts that involve senior management, fraud that in our judgment causes a material misstatement of the financial statements of the company, and illegal acts, unless clearly inconsequential, that have not otherwise been communicated to the Board.
- In planning and performing our audit we will consider the company's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and to provide assurances on the internal control. While we are not being engaged to report on the company's internal control and we are not obligated to search for reportable conditions, we will communicate reportable conditions to you to the extent they come to our attention. Reportable conditions are significant deficiencies in the design or operation of internal control, which could adversely affect the company's ability to record, process, summarise and report financial data consistent with the assertions of management in the financial statements.

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CONFIDENTIALITY & WORKING PAPERS

- If disclosure is required, access to such working papers will be provided under the supervision of “audit firm” personnel. Furthermore, upon request, we may provide photocopies of selected work papers to the relevant court or regulator. In the event that “audit firm” is required, pursuant to subpoena or other legal process, to produce its documents relating to its engagement for XX Company Limited in judicial or administrative proceedings to which “audit firm” is not a party, XX Company Limited shall reimburse “audit firm” for its professional time and expense, including reasonable attorney’s fees incurred in responding to such requests.
- In the event we are required by government regulation, subpoena or other legal process to produce our working papers or our personnel as witnesses with respect to our engagement for XX Company Limited, XX Company Limited will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such a request.
- XX Company Limited consents to “audit firm” providing or producing, as applicable, these documents and information without further reference to, or authority from XX Company Limited. XX Company Limited agrees that it will not, directly or indirectly, agree to assign or transfer any claim against “audit firm” arising out of this engagement to the Institute of Chartered Accountants of Jamaica and/or its representative.



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MODES OF COMMUNICATION

- It is agreed that we may communicate with you via e-mail, as well as the traditional forms of communication including letter, fax and telephone, although it is understood and agreed that all e-mail communication from us will not be binding until and unless communicated to you in writing, signed by me and received by hand, post or fax.
- XX Company Limited acknowledges that e-mail travels over the public internet, which is not a secure means of communication, and thus, confidentiality of the transmitted information could be compromised through no fault of “audit firm”. “audit firm” will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

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DISPUTE RESOLUTION

- **Our engagement will be governed by and construed in accordance with the Laws of Jamaica and it is agreed that the Courts of Jamaica shall have full jurisdiction to settle any disputes which may arise out of, or in connection with our engagement as your auditors in accordance with the terms of this letter.**

FEE STRUCTURE & ARRANGEMENTS

- **Fee arrangements are a matter for commercial negotiation by practitioners. Due regard should be given to the nature of the engagement and client relationship when setting fees.**

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FEE STRUCTURE & ARRANGEMENTS (continued)

Possible arrangements include:

- time and expenses – where the practitioner charges on the basis of time spent according to the level of expertise required. The rate to be charged is likely to reflect the complexity of the engagement and the value of the benefit to the client;
- fixed fees – where the practitioner charges a fixed amount for an agreed assignment, the fee should be based upon a proper costing of the work to be undertaken. It is essential that there is an appropriate variation clause in the engagement letter to enable additional work to be charged and/or cost escalation to be recouped; and
- contingent or success fees – these should be used with care and should not be adopted as commercial terms if there is a risk that professional independence and integrity will be impaired in the conduct of work.

Members should take steps to avoid fee disputes by giving an indication of fees before work is started or by agreeing fees before issuing invoices.

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CONFIRMATION

- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.

“Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

XYZ & Co.

PRACTITIONER

Acknowledged and agreed on behalf of ABC Company by

NAME

-----/-----/-----

Date”

TITLE

The areas considered today were carried out using specimen text. Each practitioner would be required at start-up to develop their own template for assurance assignments, tailored for the various elements of their practice.

It is recommended that the finalised documents be passed through an attorney with the relevant expertise to ensure that no holes have been left in your coverage.



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LETTER OF ENGAGEMENT FOR TAX WORK

IT IS STRONGLY RECOMMENDED THAT PRACTITIONERS SHOULD ISSUE A LETTER OF ENGAGEMENT FOR TAX WORK IN ORDER TO DEFINE THE TERMS OF THE ENGAGEMENT AND AGREE THESE WITH THE CLIENT:

- TO MANAGE CLIENTS' EXPECTATIONS;
- IT PROVIDES SIGNIFICANT PROTECTION TO THE PRACTITIONER;
- ASSIST IN RESOLVING DISPUTES SUCH AS A CLAIM FOR PROFESSIONAL NEGLIGENCE.

THIS IS PARTICULARLY SO GIVEN THE INCREASINGLY LITIGIOUS WORLD IN WHICH BUSINESS IS CONDUCTED.

IN THE COURSE OF THEIR WORK FOR CLIENTS, PRACTITIONERS MAY BE ACTING AS AGENT, FOR EXAMPLE WHERE THE WORK CONSISTS OF PREPARING AND SUBMITTING A TAX RETURN AND AGREEING THE TAX POSITION, OR AS PRINCIPAL, FOR EXAMPLE WHERE AN INCOME AND EXPENDITURE ACCOUNT IS PREPARED FOR A SOLE TRADER OR CONSULTANCY WORK IS UNDERTAKEN. WHEN DRAFTING THE TERMS OF AN ENGAGEMENT LETTER THE PRACTITIONER SHOULD BE CLEAR ABOUT THE DISTINCTION.

A SEPARATE ENGAGEMENT LETTER OUGHT TO BE ISSUED FOR EACH CLIENT TO WHOM A SERVICE IS PROVIDED. FOR EXAMPLE, SEPARATE ENGAGEMENT LETTERS SHOULD BE USED IF THE PRACTITIONER PROVIDES TAX SERVICES TO:

- A HUSBAND AND WIFE;
- AN INDIVIDUAL AND, FOLLOWING DEATH, THE PERSONAL REPRESENTATIVES ADMINISTERING THE DECEASED'S ESTATE;
- A COMPANY AND ITS SHAREHOLDERS;
- A COMPANY AND ITS DIRECTORS;
- A TRUST AND ITS BENEFICIARIES.

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ENGAGE WHETHER VERBALLY.....OR even better



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Put it in writing colleagues, put it in writing.....

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I do hope that today's session will make your task lighter!!!

