Letter 1

Example: Audit Engagement Letter

This example letter is reprinted from the ISA "Terms of Audit Engagements". The content may be modified to meet the needs of the auditor and/or client. Some suggestions for additional factors that the auditor may want to consider are written in [*italic print*].

To the Board of Directors (or the appropriate representative of senior management) of ABC Company:

You have requested that we audit the balance sheet of ABC Company as of December 31, 200X, and the related statements of income and cash flows for the year then ended. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be made with the objective of our expressing an opinion on the financial statements.

We will conduct our audit in accordance with International Standards on Auditing. 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 of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

[*If applicable, the auditor should discuss plans for the use of (1) other auditor's work, (2)work of experts, or (3)l the client's internal auditors. In any of these situations, the auditor should make it clear that he/she takes responsibility for the overall audit and auditor's opinion.*]

In addition to our report on the financial statements, we expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems which come to our notice. [*This letter will set forth recommendations for improvement of your internal control system and operations, based on our observations during the audit process. However, we will not render a separate opinion regarding the overall effectiveness of the internal control structure, as this is beyond the scope of a financial statement audit.*]

[*The working papers prepared in conjunction with our audit are our property and constitute confidential information. They will be retained by us in accordance with our firm policies and procedures.] [However, we may be requested to make certain working papers available to (name of regulator) pursuant to authority give to it by law or regulation. If requested, access to such working papers will be provided under the supervision of (name of auditor) personnel. Furthermore, upon request, we may*

provide photocopies of selected working papers to (name of regulator). The (name of regulator) may intend, or decide, to distribute the photocopies of information contained therein to others, including other governmental agencies.]]

We remind you that the responsibility for the preparation of financial statements including adequate disclosure is that of management of the company. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the company. As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

[*If you intend to publish or otherwise reproduce the audited financial statements and to make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.]*

[The timing of our audit will be scheduled as follows:

	Begin	*Complete*
Document internal control and preliminary tests		
Observe physical inventory count		
Mail requests for confirmations		
Perform year-end audit procedures		
Issue audit report		

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our audit. Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus out-of-pocket expenses. *[We will notify you immediately of any circumstances we encounter that could significantly affect our estimated fees. Whenever possible, we will attempt to use your Company's personnel to assist in the preparation of schedules and analyses of accounts. This effort could substantially reduce our time requirements, facilitate the timely conclusion of the audit, and help you minimize audit fees.]*

[*Amount of estimated ees and expected payment schedule may be discussed here.*]

This letter will be effective for future years unless it is terminated, amended or superseded.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the financial statements.

(signed)
Executive Director
(name of audit firm)

Acknowledged on behalf of
ABC Company by

(signed)

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Name and Title
Date