

Terms of Audit Engagements

The Singapore Standard on Auditing SSA 2 “Terms of Audit Engagements” was approved by the Council of the Institute of Certified Public Accountants of Singapore in September 1996.

Auditors are required to comply with the auditing standards contained in this SSA in respect of audits of financial statements for periods beginning on or after 1 January 1997.

SSA 210 supersedes SSA 2 of the same title in June 2004. No substantive changes have been made to the original approved text and all cross references have been updated, as appropriate.

This revised SSA 210 supersedes the SSA of the same title in June 2005.

The Audit Risk Standards, comprising SSA 315 “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement”, SSA 330 “The Auditor’s Procedures in Response to Assessed Risks” and SSA 500 (Revised) “Audit Evidence” gave rise to conforming amendments in this SSA. These amendments are effective for audits of financial statements for periods beginning on or after 15 December 2004.

SSRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued in December 2005 gave rise to a conforming amendment to SSA 210. This conforming amendment is effective for audits of financial statements for periods beginning on or after 15 December 2006.

Singapore Standards on Auditing (SSAs) are to be applied in the audit of financial statements. SSAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

SSAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the SSA including explanatory and other material contained in the SSA not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an SSA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

SSAs need only be applied to material matters.

The Public Sector Perspective (PSP) issued is set out at the end of an SSA. Where no PSP is added, the SSA is applicable in all material respects to the public sector.

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SINGAPORE STANDARD ON AUDITING

SSA 210

Terms of Audit Engagements

Foreword

- i. This Standard is based on International Standard on Auditing 210, with such amendments as were considered appropriate for local adoption.
- ii. The amendments are as follows:

Paragraph 4

'In some countries, the objective and scope of an audit and the auditor's obligations are established by law. Even in those situations, the auditor may still find engagement letters informative for their clients.

is replaced by:

'The objective and scope of the audit of companies and branches of overseas corporations in Singapore and the auditor's obligations are established by the relevant legislation and regulations and promulgations of the Institute of Certified Public Accountants of Singapore (ICPAS).

Paragraph 6

'The scope of the audit, including reference to applicable legislation, regulations, or pronouncements of professional bodies to which the auditor adheres.'

is replaced by:

'The scope of the audit, including reference to applicable legislation and regulations and promulgations of the Institute.'

Appendix

Paragraph 1

You have requested that we audit the balance sheet of as of, and the related statements of income and cash flows for the year then ending. We are please 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.

is replaced by:

We hereby consent pursuant to ... (e.g. Section 10 of the Companies Act, Cap. 50) ... to act as statutory auditors of your ... (e.g. company).

We now set out our understanding of the terms of this engagement. Our audit will be made in accordance with the requirements of ... (e.g. Section 207 of the Companies Act,

Cap. 50 in the case of companies) with the objective of expressing an opinion of the accounts. Our audit will be made with the objective of our expressing an opinion on the financial statements.

Paragraph 3

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.

is replaced by:

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. Accordingly, our audit should not be relied on to disclose fraud, defalcations or other irregularities. However, if they exist, their disclosure may result from the audit tests we undertake.

Paragraph 5

We remind you that the responsibility for the preparation of financial statements including adequate disclosure is that of the 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.

is replaced by:

We remind you that the Companies Act provides that the responsibility for the preparation of financial statements including adequate disclosure is that of the directors/management. 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 the directors/management written confirmation concerning representations made to us in connection with the audit.

Paragraph 6

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. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

is replaced by:

The Companies Act provides that we shall have a right of access at all times to the accounting and other records including registers of the company, and that we are entitled to such information and explanations as we desire for the purposes of our audit. We look forward to full cooperation with your staff in this connection.

Any accounting or other services which we may provide from time to time at your request, are distinct from our functions as auditors.

Our fees, which may be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus direct out-of-pocket expenses.

Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

Introduction

1. The purpose of this Singapore Standard on Auditing (SSA) is to establish standards and provide guidance on:
 - (a) agreeing the terms of the engagement with the clients; 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.
2. **The auditor and the client should agree on the terms of the engagement.** The agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract.
3. This SSA is intended to assist the auditor in the preparation of engagement letters relating to audits of financial statements. The guidance is also applicable to related services. When other services such as tax, accounting, or management advisory services are to be provided, separate letters may be appropriate.
4. The objective and scope of the audit of companies and branches of overseas corporations in Singapore and the auditor's obligations are established by the relevant legislation and regulations and promulgations of the Institute of Certified Public Accountants of Singapore (ICPAS).

Audit Engagement Letters

5. It is in the interest of both client and auditor that the auditor sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports.

Principal Contents

6. The form and content of audit engagement letters may vary for each client, but they would generally include reference to:
 - The objective of the audit of financial statements.
 - Management's responsibility for the financial statements.
 - The scope of the audit, including reference to applicable legislation and regulations and promulgations of the Institute.
 - The form of any reports or other communication of results of the engagement.
 - The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that even some material misstatement may remain undiscovered.
 - Unrestricted access to whatever records, documentation and other information requested in connection with the audit.
 - Management's responsibility for establishing and maintaining effective internal control.

7. The auditor may also wish to include in the letter:
 - Arrangements regarding the planning and performance of the audit.
 - Expectation of receiving from management written confirmation concerning representations made in connection with the audit.
 - Request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter.
 - Description of any other letters or reports the auditor expects to issue to the client.
 - Basis on which fees are computed and any billing arrangements.
8. When relevant, the following points could also be made:
 - Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
 - Arrangements concerning the involvement of internal auditors and other client staff.
 - Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
 - Any restriction of the auditor's liability when such possibility exists.
 - A reference to any further agreements between the auditor and the client.

An example of an audit engagement letter is set out in the Appendix.

Audits of Components

9. When the auditor of a parent entity is also the auditor of its subsidiary, branch or division (component), the factors that influence the decision whether to send a separate engagement letter to the component include:
 - Who appoints the auditor of the component.
 - Whether a separate audit report is to be issued on the component.
 - Legal requirements.
 - The extent of any work performed by other auditors.
 - Degree of ownership by parent.
 - Degree of independence of the component's management.

Recurring Audits

10. **On recurring audits, the auditor should consider whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the client of the existing terms of the engagement.**
11. The auditor may decide not to send a new engagement letter each period. However, the following factors may make it appropriate to send a new letter:
 - Any indication that the client misunderstands the objective and scope of the audit.

- Any revised or special terms of the engagement.
- A recent change of senior management or those charged with governance .
- A significant change in ownership.
- A significant change in nature or size of the client's business.
- Legal or regulatory requirements.

Acceptance of a Change in Engagement

12. **An auditor who, before the completion of the engagement, is requested to change the engagement to one which provides a lower level of assurance, should consider the appropriateness of doing so.**
13. A request from the client for the auditor to change the engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit or related service originally requested or a restriction on the scope of the engagement, whether imposed by management or caused by circumstances. The auditor would consider carefully the reason given for the request, particularly the implications of a restriction on the scope of the engagement.
14. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of service originally requested would ordinarily be considered a reasonable basis for requesting a change in the engagement. In contrast a change would not be considered reasonable if it appeared that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory.
15. Before agreeing to change an audit engagement to a related service, an auditor who was engaged to perform an audit in accordance with Singapore Standards on Auditing (SSAs) would consider, in addition to the above matters, any legal or contractual implications of the change.
16. If the auditor concludes, that there is reasonable justification to change the engagement and if the audit work performed complies with the SSAs applicable to the changed engagement, the report issued would be that appropriate for the revised terms of engagement. In order to avoid confusing the reader, the report would not include reference to:
 - (a) The original engagement; or
 - (b) Any procedures that may have been performed in the original engagement, except where the engagement is changed to an engagement to undertake agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.
17. **Where the terms of the engagement are changed, the auditor and the client should agree on the new terms.**
18. **The auditor should not agree to a change of engagement where there is no reasonable justification for doing so.** An example might be an audit engagement where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the client asks for the engagement to be changed to a review engagement to avoid a qualified audit opinion or a disclaimer of opinion.
19. **If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to report to other**

parties, such as those charged with governance or shareholders, the circumstances necessitating the withdrawal.

Public Sector Perspective

1. *The purpose of the engagement letter is to inform the auditee of the nature of the engagement and to clarify the responsibilities of the parties involved. The legislation and regulations governing the operations of public sector audits generally mandate the appointment of a public sector auditor and the use of audit engagement letters may not be a widespread practice. Nevertheless, a letter setting out the nature of the engagement or recognizing an engagement not indicated in the legislative mandate may be useful to both parties. Public sector auditors have to give serious consideration to issuing audit engagements letters when undertaking an audit.*
2. *Paragraphs 12 to 19 of this SSA deal with the action a private sector auditor may take when there are attempts to change an audit engagement to one which provides a lower level of assurance. In the public sector specific requirements may exist within the legislation governing the audit mandate; for example, the auditor may be required to report directly to a minister, the legislature or the public if management (including the department head) attempts to limit the scope of the audit.*

APPENDIX

Example of an Audit Engagement Letter

The following letter is for use as a guide in conjunction with the considerations outlined in this SSA and will need to be varied according to individual requirements and circumstances.

To the Board of Directors or the appropriate representative of senior management:

Dear Sirs

We hereby consent pursuant to ... (e.g. Section 10 of the Companies Act, Cap. 50) ... to act as statutory auditors of your ... (e.g. company).

We now set out our understanding of the terms of this engagement. Our audit will be made in accordance with the requirements of ... (e.g. Section 207 of the Companies Act, Cap. 50 in the case of companies) with the objective of expressing an opinion of the accounts.

We will conduct our audit in accordance with Singapore Standards on Auditing (SSAs). Those SSAs 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. Accordingly, our audit should not be relied on to disclose fraud, defalcations or other irregularities. However, if they exist, their disclosure may result from the audit tests we undertake.

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.

We remind you that the Companies Act provides that the responsibility for the preparation of financial statements including adequate disclosure is that of the directors/management. 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 the directors/management written confirmation concerning representations made to us in connection with the audit.

The Companies Act provides that we shall have a right of access at all times to the accounting and other records including registers of the company, and that we are entitled to such information and explanations as we desire for the purposes of our audit. We look forward to full cooperation with your staff in this connection.

Any accounting or other services which we may provide from time to time at your request, are distinct from our functions as auditors.

Our fees, which may be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus direct out-of-pocket expenses. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

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.

Yours faithfully

XYZ
Partner
ABC & Co.