

ENGAGEMENT LETTER TEMPLATE FOR INDEPENDENT REVIEW ENGAGEMENTS

Caution

Members are requested/encouraged to seek legal advice with regard to the implication of the Protection of Personal Information Act (POPI Act), pertaining to the engagement, as well as any other legislation that may be applicable.

Introduction

1. In terms of Regulation 29(4) of the Companies Regulations, 2011, under the Companies Act No. 71, 2008 (Companies Act), an independent review of a company's financial statements must be carried out:
 - In the case of a company whose public interest score for the particular financial year was at least 100 but less than 350 and its financial statements were independently compiled, by a registered auditor or a member in good standing of a professional body that has been accredited in terms of section 33 of the Auditing Profession Act No. 26, 2005 (Auditing Profession Act); or
 - In the case of a company whose public interest score for the particular financial year was less than 100, by a registered auditor, or a member in good standing of a professional body that has been accredited in terms of section 33 of the Auditing Profession Act, or a person who is qualified to be appointed as an accounting officer of a close corporation in terms of section 60(1), (2) and (4) of the Close Corporations Act No. 69, 1984.
 - The above requirement to have an independent review does not apply to a company that meets the exemption in terms of Section 30(2A) of the Companies Act, nor does it apply to a company that is required to be audited in terms of its Memorandum of Incorporation, or that has otherwise decided to have its financial statements audited (i.e. where decided by the company's board or a shareholders resolution).

To assist members and associates of the South African Institute of Chartered Accountants (SAICA), this circular has been drafted for the independent review engagements of a company's financial statements, but can be amended to suit other types of entities.

2. Appendix A includes an engagement letter template for independent review engagements that can be used by an independent reviewer performing independent reviews in terms of the Companies Act. The engagement letter template provided below is based on the requirements of International Standard on Review Engagements (ISRE) 2400 (Revised).

**Johannesburg
Updated October 2017**

**W Botha
Senior Executive:
Assurance and Practice**

ILLUSTRATIVE INDEPENDENT REVIEW ENGAGEMENT LETTER¹

Our ref.: [insert]

[Date]

The Directors²
[Insert name of client]
[Address]

ENGAGEMENT LETTER TO PERFORM AN INDEPENDENT REVIEW OF THE FINANCIAL STATEMENTS OF [INSERT NAME OF CLIENT]

The objective and scope of the independent review

You have requested that we perform an independent review of the financial statements of [insert name of client], which comprise the statement of financial position as at [insert period-end date], and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the [year/period] then ended, and the notes to the financial statements including a summary of significant accounting policies. We are pleased to confirm our acceptance and our understanding of this independent review engagement by means of this letter.

Our independent review will be conducted with the objective of expressing our conclusion on the financial statements. Our conclusion, if unmodified, will be in the form “Based on our review, nothing has come to our attention that causes us to believe that these financial statements [do not present fairly, in all material respects, the financial position of the company as at [insert period-end date] and its financial performance and cash flows for the [year/period] then ended]³ / [of [insert name of client] are not prepared, in all material respects]⁴ in accordance with [insert name of the applicable financial reporting framework / the basis of accounting described in note x to the financial statements]⁵ and the requirements of the Companies Act of South Africa.

The independent reviewer’s responsibilities

We will conduct our independent review in accordance with the International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. ISRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with [insert name of the applicable financial reporting framework / the stated basis of accounting]. ISRE 2400 (Revised) also

¹ The individual independent reviewer or the firm should consider and may decide to obtain independent professional or legal advice, as deemed appropriate, in relation to the specific terms of their general engagement letter and/or standard terms and conditions for professional services, including independent reviews of company financial statements.

² Where the client is an entity other than a company that is required or elects to have an independent review of its financial statements, any reference to “Directors” and “company” must be replaced with appropriate wording. The section on Reportable Irregularities in terms of Regulation 29 of the Companies Regulations should be excluded from the engagement letter for entities, other than companies.

³ The wording in brackets (“do not present fairly ...”) should be used if the company applied International Financial Reporting Standards (IFRS) or the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

⁴ The wording in brackets (“... are not prepared ...”) should be used if the company applied an entity specific basis of accounting.

⁵ The applicable financial reporting framework applied by the company could be IFRS or IFRS for SMEs. A company with a public interest score < 100 that internally compiles its financial statements may apply an entity specific basis of accounting in which case the words: “the basis of accounting described in note [x] to the financial statements” should be used.

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requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. We will perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained. We will also perform additional procedures if we become aware of matters that cause us to believe the financial statements as a whole may be materially misstated. These procedures are performed to enable us to express our conclusion on the financial statements in accordance with ISRE 2400 (Revised). The procedures selected will depend on what we consider necessary, applying our professional judgement, based on our understanding of [insert name of client] and its environment, and our understanding of [insert name of the applicable financial reporting framework / the stated basis of accounting] and [its/their] application in the industry context.

An independent review is not an audit of the financial statements, therefore:

- a) There is a commensurate higher risk than there would be in an audit, that any material misstatements that exist in the financial statements reviewed may not be revealed by the independent review, even though such a review is properly performed in accordance with ISRE 2400 (Revised).
- b) In expressing our conclusion from the independent review of the financial statements, our report on the financial statements will expressly disclaim any audit opinion on the financial statements.

Responsibilities of the directors

The directors are responsible for the calculation of the public interest score in accordance with Regulation 26 of the Companies Regulations, 2011 (Companies Regulations). The company's public interest score should be calculated by the directors at year-end for the current financial year. It is the sole responsibility of the directors to determine the appropriateness of an independent review engagement in the circumstances of the company, in compliance with the requirements of the Companies Act, 2008 (Companies Act), and taking cognisance of any other requirements or agreements that may be applicable to the company.

Our independent review will be conducted on the basis that you acknowledge and understand your responsibility:

- a) For the preparation [and fair presentation]⁶ of the financial statements in accordance with [insert the name of the applicable financial reporting framework / the stated basis of accounting] and the requirements of the Companies Act;
- b) For such internal control as you determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- c) To provide us with:
 - i. Access to all information of which you are aware that is relevant to the preparation [and fair presentation] of the financial statements, such as records, documentation and other matters,
 - ii. Additional information that we may request from you for the purpose of the review, and

⁶ Exclude these words if the company applied an entity specific basis of accounting.

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- iii. Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our independent review, we will request from you written confirmation concerning representations made to us in connection with the independent review.

Reporting

As stated above, our independent review will be conducted with the objective of expressing a conclusion on the financial statements as a whole. Our conclusion will be communicated in a written report. If the conclusion on the financial statements of the company is unmodified, it is expected to read as follows:

“Based on our review, nothing has come to our attention that causes us to believe that these financial statements [do not present fairly, in all material respects, the financial position of [insert name of client] as at [insert period-end date], and its financial performance and its cash flows for the year/period then ended] / [of [insert name of client] are not prepared in all material respects], in accordance with [insert the name of the applicable financial reporting framework / the basis of accounting described in note x to the financial statements] and the requirements of the Companies Act of South Africa.”

The form and contents of our report may need to be amended in the light of our findings obtained from the independent review.

Other reports required by the Companies Act⁷

The Companies Act requires the annual financial statements to include a directors' report. A complete set of financial statements is identified by the applicable financial reporting framework and does not include the directors' report.

The information contained in the directors' report is generally not in the form of an assertion and the subject matter is generally not identifiable and open to consistent evaluation or measurement against identified criteria. Consequently, our conclusion expressed on the financial statements does not extend to the information contained in the directors' report.

However, an independent reviewer has a responsibility to read the other information contained in the directors' report to identify material inconsistencies, if any, with the reviewed financial statements.

As part of our independent review of the financial statements for the [year/period] ended [insert period-end date], we will read the directors' report and in doing so, consider whether the directors' report is materially inconsistent with the reviewed financial statements, or our knowledge obtained in the independent review, or otherwise appears to be materially misstated. We will include a separate paragraph in our independent review report in this regard.

Reportable Irregularities in terms of Regulation 29 of the Companies Regulations

It is our responsibility to inform you regarding our obligation, in terms of Regulation 29 of the Companies Regulations to report reportable irregularities to the Companies and Intellectual Property Commission (the Commission).

A “reportable irregularity” refers to any act or omission committed by any person responsible

⁷ Refer to the note at the end of this circular with respect to the requirement of the Companies Act, 2008 that the directors' report forms part of the annual financial statements of a company. Use appropriate terminology/relevant name of the report, for other types of entities.

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for the management of a company, which:

- a) Unlawfully has caused or is likely to cause material financial loss to the company or to any member, shareholder, creditor or investor of the company in respect of his, her or its dealings with that entity;
- b) Is fraudulent or amounts to theft; or
- c) Causes or has caused the company to trade under insolvent circumstances.

We are not required to design procedures for the specific purpose of identifying reportable irregularities. However, we will consider all information that comes to our attention from any source in order to determine whether a reporting obligation arises. In instances where we are satisfied or have reason to believe that a reportable irregularity has taken place or is taking place, the independent reviewer is required, without delay, to send a written report to the Commission. Such a report initiates a series of activities in accordance with Regulation 29 of the Companies Regulations pertaining to discussing the report with the members of the Board of the company, obtaining representations from the Board and sending a final report to the Commission concluding on the existence and status of a reportable irregularity, including information relating to steps that have been taken for the prevention or recovery of any loss as a result thereof (if relevant).

Professional obligation to respond to non-compliance with laws and regulations in terms of the SAICA Code of Professional Conduct (Revised November 2018)(the Code)⁸

The partners and employees of our firm have a professional obligation to act in the public interest, and to act in order to: (i) enable [insert name of client] (the company) to rectify, remediate or mitigate the consequences of any identified or suspected non-compliance with laws or regulations as described in the Code; or (ii) deter the commission of the non-compliance or suspected non-compliance with laws or regulations where it has not yet occurred.

“Non-compliance with laws and regulations (non-compliance) in relation to Professional accountants in Public Practice comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by a client, or by those charged with governance of a client, by management of a client or by other individuals working for or under the direction of a client.”

Where we encounter non-compliance or suspected non-compliance we will seek to obtain an understanding of the matter. Where appropriate, we will discuss the matter with the appropriate level of management at the company, or those charged with governance in order that such people can take appropriate action to rectify, remediate or mitigate the consequences of the non-compliance, deter the commission of non-compliance where it has not yet occurred or disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest, having regard to the appropriateness of the response of management and, where applicable, those charged with governance and other relevant factors in accordance with the Code.

We, in encountering non-compliance or suspected non-compliance, are also obliged to comply with applicable legislation or professional standards, which may require us to disclose the matter to an appropriate authority, including the reporting of reportable irregularities as referred to in the preceding section of this engagement letter.

⁸ This illustrative engagement letter assumes that the independent reviewer (or the firm) is a chartered accountant/(s). Please refer to the introduction section of this circular that addresses the requirements with respect to who may be appointed as the independent reviewer of a company's financial statements. If the individual independent reviewer or the firm accepts and performs the engagement in his/her/its capacity as a Registered Auditor registered with the Independent Regulatory Board for Auditors (IRBA), the heading of this section should be amended

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to: "Professional obligation to respond to non-compliance with laws and regulations in terms of the IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018) (the Code)".

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We also have a professional responsibility to consider whether the response of the company to the instance of non-compliance or suspected non-compliance is adequate, and may determine that further action is necessary. Such further action may include, among other actions, the disclosure of the matter to an appropriate authority. We will disclose the matter to an appropriate authority only where, in the professional judgement of the independent reviewer, the extent of the actual or potential harm that is or may be caused to the company, investors, creditors or employees or the general public is sufficient to justify the disclosure.

In exceptional circumstances, we may be required to immediately disclose the matter to an appropriate authority where we have become aware of actual or intended conduct that we have reason to believe would constitute an imminent breach of law or regulation that would cause substantial harm to the company, investors, creditors, employees or the general public. In such circumstances we will discuss the matter with the management or those charged with governance of the company where it is appropriate to do so.

Fees

Our fees are based on the time required by the resources assigned to the engagement. The fees billed are based on the degree of responsibility involved, as well as the level of experience, knowledge and skill required. Our fees, together with disbursements, will be billed as work progresses, and settlement is due on presentation of our invoices.

Agreement of terms

This engagement letter should be read in conjunction with our standard terms and conditions⁹, which are attached to this letter and marked Appendix A, which will be applicable to all work we undertake prior to and pursuant to this engagement letter.

We look forward to full cooperation with your staff during our independent review.

We are available to discuss this letter with you at any time. Once it has been agreed to, this letter will remain effective for future years unless it is terminated, amended or superseded.

The [individual practitioner / partner / director] responsible and accountable for the independent review engagement is: [Insert name].

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

Yours faithfully

[Insert name of independent reviewer / firm]¹⁰
Chartered Accountant/(s) (SA)

⁹ In the case of a review of financial statements, the practitioner/firm may limit his/her/its liability as part of such standard terms and conditions. Practitioners and firms should obtain appropriate legal advice in this regard to ensure that all relevant laws and regulations are complied with.

¹⁰ This illustrative engagement letter assumes that the independent reviewer (or the firm) is a chartered accountant/(s). Please refer to the introduction section of this circular that addresses the requirements with respect to who may be appointed as the independent reviewer of a company's financial statements. The designation of the individual independent reviewer or the firm should be adapted according to the appointee of the engagement and the capacity in which he/she/it accepts and performs the engagement.

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Acknowledged and agreed on behalf of [insert name of client] by

NAME

CAPACITY

SIGNATURE

DATE

Note for purposes of completing the engagement letter template, which should be deleted before the engagement letter is presented to the client:

Directors' report as part of the annual financial statements of a company

The Directors' Report forms part of the annual financial statements prescribed by the Companies Act that must be reviewed, as and when applicable. The information (subject matter) in this report is generally not identifiable and open to consistent evaluation or measurement against identified criteria. Consequently, the conclusion expressed on the financial statements does not extend to the information contained in this report as the independent reviewer has no basis for concluding that the information is properly stated.

However, an auditor in accordance with ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* has a responsibility to read the other information. In doing so the auditor must consider whether there is any material inconsistency between the other information and the financial statements on the one hand, and the other information and the auditor's knowledge obtained in the audit, on the other hand.

The guidance in the preceding paragraph is considered to apply equally to an independent reviewer, in the context of other reports required by the Companies Act.

In terms of section 34(2) read together with section 84(1)(c), a company contemplated in this circular can still find itself in a position where its Memorandum of Incorporation requires the appointment of a Company Secretary and/or an audit committee. In such instances, the annual financial statements also include a company secretary certificate and/or audit committee report; which should be dealt with in a similar fashion to the directors' report.