ENGAGEMENT LETTER TEMPLATE FOR REVIEW ENGAGEMENTS

Introduction
.01 In terms of Regulation 29(4) of 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 Professions Act No. 26, 2005; 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 Professions 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.

.02 To assist members, the South African Institute of Chartered Accountants (SAICA) has provided in Appendix A an engagement letter template for review engagements that can be used by any practitioner performing independent reviews in terms of the Companies Act. Please note that the engagement letter template provided below is based on the requirements of International Standard on Review Engagements 2400 (Effective for reviews of financial statements for periods beginning on or after 15 December 2006). The IAASB issued ISRE 2400 (Revised) (Effective for reviews of financial statements for periods ending on or after December 31, 2013) in September 2012. This circular will be updated in due course to reflect any changes that may be required in terms of the revised standard.

Johannesburg                        M P Matlwa
Updated November 2012    Chief Executive Officer

Updated and issued November 2012
ILLUSTRATIVE REVIEW ENGAGEMENT LETTER

Our ref.:- [insert]

[Date]

The Directors¹
[Name of review client]
[Address]

ENGAGEMENT LETTER TO REVIEW FINANCIAL STATEMENTS

The objective and scope of the review and our responsibilities

You have requested that we review the financial statements of [Name of client] for the year/period ended [date], comprising the statement of financial position as at [reporting date], and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year/period then ended, and a summary of significant accounting policies and other explanatory information, and the directors’ report². We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.

We will conduct our review in accordance with International Standard on Review Engagements (ISRE) 2400 – Engagements to Review Financial Statements. ISRE 2400 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 the applicable financial reporting framework/stated accounting policies. ISRE 2400 also requires us to comply with relevant ethical requirements.

¹ Where the client is a close corporation that requires a review of its financial statements in terms of the regulations to the Companies Act, 2008, any reference to “Directors” or “Board of the company” must be replaced with “Members” and any reference to “company” must be replaced with “close corporation”.

² Refer to the note at the end with respect to the requirement of the Companies Act, 2008 that the directors’ report forms part of the annual financial statements of a company.
A review of financial statements in accordance with ISRE 2400 consists primarily of making inquiries of management and others within the entity that are involved in financial and accounting matters, applying analytical procedures and evaluating the sufficiency and appropriateness of the review evidence obtained. A review may also include any other procedures we consider necessary in the circumstances of the engagement to obtain sufficient and appropriate evidence as the basis for our conclusion on the financial statements as a whole. The procedures selected will depend on what we consider necessary, applying our professional judgment, based on our understanding of [Name of client] and its environment, and our understanding of the applicable financial reporting framework/stated accounting policies and its/their application in the circumstances. We will not perform an audit of the financial statements.

As we are engaged to review the financial statements:

- There is a commensurate higher risk that any material misstatements that exist in the financial statements reviewed may not be revealed by the review, even though the review is properly performed in accordance with ISRE 2400. The procedures performed in a review engagement do not provide all the evidence that would be required in an audit.

- In expressing our review conclusion, our report on the financial statements will state that an audit has not been performed and that we do not express an 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. 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 a review engagement in the circumstances of the company, in compliance with the requirements of the Companies Act, 2008, and taking cognisance of any other requirements or agreements that may be applicable to the company.

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3 In the circumstances of this illustrative letter, the terminology “directors” is appropriate in terms of the requirements of ISRE 2400 relating to the responsibilities of management and, where appropriate, those charged with governance. In the case of a close corporation, the appropriate terminology will be “members”.

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

- For the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and the requirements of the Companies Act of South Africa;¹

- 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

- To provide us with access to all information of which you are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters, additional information that we may request from you for the purpose of the review, and unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our review, we will request from management and, where appropriate, from those charged with governance, written confirmation concerning representations made to us in connection with the review.

**Reporting**

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

“Based on our review, nothing has come to our attention that causes us to believe that the [annual] financial statements do not present fairly, in all material respects, the financial position of the company at the reporting date, and its financial performance and its cash flows for the year/period then ended, in accordance with the International Financial Reporting

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¹ A company with a public interest score of less than 100 and whose financial statements are internally compiled may choose to apply the basis of accounting as determined by the company. In such instance, the appropriate wording for this paragraph is: “For the preparation and fair presentation of the financial statements in accordance with the basis of accounting as described in the notes to the financial statements and the requirements of the Companies Act of South Africa.”
Standard for Small and Medium-sized Entities (IFRS for SMEs) and the requirements of the Companies Act of South Africa.”

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

**Other reports required by the Companies Act, 2008**

The Companies Act, 2008 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 often not in the form of an assertion and the subject matter is often not identifiable and capable of consistent evaluation or measurement against identified criteria. Consequently, our review opinion 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 ended 31 December 20X1, we will read the directors’ report for the purpose of identifying whether there are material inconsistencies between this report and the reviewed financial statements and include a separate paragraph in our independent review report to indicate whether, based on our reading of the directors’ report, we have identified any material inconsistencies between this report and the reviewed financial statements.

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5 If a company with a public interest score of less than 100 and whose financial statements are internally compiled has opted to apply the basis of accounting as determined by the company, the appropriate wording for this paragraph is: “Based on our review, nothing has come to our attention that causes us to believe that the [annual] financial statements are not prepared, in all material respects, in accordance with the basis of accounting described in note xx to the financial statements and the requirements of the Companies Act of South Africa.”

6 Refer to the note at the end with respect to the requirement of the Companies Act, 2008 that the directors’ report forms part of the annual financial statements of a company.
Reportable irregularities in terms of Regulation 29 of the Companies Regulations, 2011

It is our responsibility to inform you regarding our obligation, in terms of Regulation 29 of the Companies Regulations, 2011, 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 for the management of a company, which:

- 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; or
- Is fraudulent or amounts to theft; or
- 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 practitioner responsible and accountable for the review engagement 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, 2011, 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).

Please do not hesitate to contact us if you require further clarification regarding our obligation to report reportable irregularities to the Commission.

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 conditions, 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 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 responsible and accountable for the review engagement is: [Name of independent reviewer].

Please sign and return the attached copy of this letter, including our standard terms and conditions, to indicate that it is in accordance with your understanding of, and agreement with, the arrangements for our review of the financial statements, including our respective responsibilities.

Yours faithfully

[Name of practitioner / firm]
Chartered Accountants (SA)

I, the undersigned, being duly authorised to sign for or on behalf of [Name of client], herewith accept the above terms of the engagement.

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7 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.
Note – 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 reviewed, as and when applicable. The information in this report is often not in the form of an assertion and the subject matter is often not identifiable and capable of consistent evaluation or measurement against identified criteria. Consequently, the opinion expressed on the financial statements does not always 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 has responsibilities in accordance with ISA 720, The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, which requires the auditor to read the other information to identify material inconsistencies, if any with the audited financial statements. When the auditor reads the other information, the auditor does so in the light of the knowledge the auditor has acquired during the audit.

The guidance in the preceding paragraph is considered to apply equally to an independent reviewer.

Where the director’s report will not be covered by the review opinion, it must be deleted from this sentence in the engagement letter. The engagement letter must then include a separate clause describing the reviewer’s duties regarding the information in the directors’ report that will be published as part of the annual financial statements.

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.