

**ANAN STANDARD ON AUDITING  
ASA (01)**

**TERMS OF AUDIT ENGAGEMENTS**

**Issued by:  
Association of National Accountants of Nigeria**

**31ST DECEMBER 2009**

## PREFACE

The Association of National Accountants of Nigeria was established in 1979, registered in 1983 under land perpetual Succession Act, and Chartered by Act No 76 of 1993.(Now Cap A26, LFN, 2004)

It was charged with general duty of:

- a. Advancing the science of accountancy in Nigeria
- b. Determining the standard of knowledge and skill to be attained by persons seeking to become registered members of the profession, and reviewing those standards from time to time as circumstances may require,
- c. Promoting the highest standard of competence, practice and conduct among members of the profession,
- d. Securing the establishment and maintenance of register of members of the profession and the publication, from time to time of list of those persons.
- e. Doing such things as may advance and promote the advancement of the profession of accountancy in both the public and private sectors of the economy.

Globalization and rapid advancement in information management and the pace of dissemination inevitably engendered borderless business entities and growth of international business with the attendant consequence of the need for standardization of the financial reporting mechanism. As a professional member of the global community, we can not afford to deviate from the global practice of adopting or adapting the standards issued by the International Auditing Standard Board where necessary.

Therefore the Council of the Association in pursuance of the aforementioned conviction has decided to adopt the standards issued by IASB on Terms of Audit Engagement

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## EXPLANATORY NOTES & STATEMENT OF POLICY

It is highly recommended that members should adhere to the application of this standard as applicable to their assignments in relation to audit of pecuniary matters and any other pertinent issues with regard to operations of corporate business entities.

To be on the safe side, it is better or ideal for the terms of engagement and the conditions under which the Auditor is expected to work be properly communicated in order to eschew misunderstanding should there be need for resolution of conflict in terms of non - performance or infringement of rights of either party.

Furthermore there is the statutory requirement to the limits of the Auditor's responsibilities and the functions they are expected to perform which must be made clear to the clients.

It is pertinent to note that no part of this statement should be taken in isolation as the entire clauses are contiguous and should be taken together holistically.

In the event of contradictions between the base law of the International Auditing Standard Board on which any of its standards is premised and the relevant applicable laws in Nigeria, the affected standard would be structured in compliance with the Nigerian law. Users are therefore encouraged to digest all that are written in this ASA in order to be sufficiently guided.

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## 1. **Introduction**

The purpose of this ANAN Standard on Auditing (ASA 01) is to establish standards and provide guidance on: -

- a. Agreeing the terms of the engagement with the client; 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. 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 audit engagement letters informative for his clients.

## 4. **Audit Engagement Letters**

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 objectives and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports.

## 5. 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.**

- Managements' responsibility for the Financial Statements.
- The Financial reporting framework adopted by management in preparing the financial statements, i.e. the applicable financial reporting framework.
- The scope of the audit, including reference to applicable legislation, regulations, or pronouncements of the Association to which the auditor adheres.
- 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 any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.
- Unrestricted access to whatever records, documentation and other information requested in connection with the audit.
- Managements' responsibility for establishing and maintaining effective internal control.

## 6. **The Auditor may also wish to include in the letter:**

- Arrangements regarding the planning of the audit.
- Expectation of receiving from management written confirmation concerning representations made in connection with the audit.

- 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.
- Request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter.

7. **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's 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.*

8. **Audits of Components**

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 the following:

- Who appoints the Auditor of the component.

- Whether a separate Auditor's 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' management.

9. **Recurring/Continuing Audits**

On recurring/continuing 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.

10. 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, board of directors or ownership.
- A significant change in nature or size of the client's business.
- A change in the Financial reporting framework adopted by management in preparing the Financial Statements.
- Legal or regulatory requirements.

## 11. Acceptance of a Change in Engagement

- 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.
12. 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.
  13. 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.
  14. Before agreeing to change an audit engagement to a related service, an auditor who was engaged to perform an audit in accordance with the ASA01 would consider, in addition to the above matters, any legal or contractual implications of the change.

15. If the Auditor concludes that there is reasonable justification to change the engagement and if the audit work performed complies with the ASA 01 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 a 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.
16. Where the terms of the engagement are changed, the auditor and the client should agree on the new terms.
17. 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.
18. 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 the board of directors or shareholders, the circumstances necessitating the withdrawal.

**19. Agreement on the Applicable Financial Reporting Framework**

The terms of the engagement should identify the applicable Financial reporting framework.

The auditor should accept an engagement for an audit of Financial Statements only when the auditor concludes that the Financial reporting framework adopted by management is acceptable or when it is required by law or regulation. When law or regulation requires use of a Financial reporting framework for general purpose Financial Statements that the auditor considers to be unacceptable, the auditor should accept the engagement only if the deficiencies in the framework can be adequately explained to avoid misleading users.

**20. Public Sector Perspective**

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.

This ASA deals 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, or the legislature.

**21. Compliance with ISA**

The requirements of this Standard comply substantially with ISA 210: Terms of Audit Engagements.

**22. Effective Date**

This ASA 01 is effective for audits of Financial Statements for periods beginning on or after 31st December 2009

## Appendix 1

### Example of an Audit Engagement letter

The following letter is for use as a guide in conjunction with the considerations outlined in this ASA(01) and will need to be varied according to individual requirements and circumstances

#### To the Board of Directors

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 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 ANAN 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.

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 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.

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, (Insert information regarding fee arrangement and billings, as appropriate).

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.

XYZ & Co.

Acknowledged on behalf of ABC Company by

*(Signed)*

\_\_\_\_\_  
Name and Title

Date \_\_\_\_\_