

## **ILLUSTRATIVE ACCOUNTING OFFICER ENGAGEMENT LETTER**

The following letter is for use as a guide and will need to be varied according to individual requirements and circumstances.

### **LETTERHEAD OF ACCOUNTING OFFICER**

Our ref.: [insert]

[Date]

The Management

[Name of close corporation]

[Address]

### **ENGAGEMENT LETTER TO PERFORM AN ACCOUNTING OFFICER ENGAGEMENT**

Dear ....:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

### **OBJECTIVE AND SCOPE OF THE ACCOUNTING OFFICER ENGAGEMENT AND OUR RESPONSIBILITIES**

We will perform the following services:

- We will perform an accounting officer engagement as required by section 62 of the Close Corporation Act, 1984 as amended
- We are required to determine whether the annual financial statements are in agreement with the accounting records, summarised in the manner required by section 58(2)(d) of the Act, and will do so by adopting such procedures and conducting such enquiries in relation to the accounting records as we agreed with you and considered necessary in the circumstances.
- We are also required to review the accounting policies, which have been presented to us as having been applied in the preparation of the annual financial statements, and make a statement on whether we consider that they are appropriate to the business of the close corporation.
- We are also required to report any contraventions of the Close Corporations Act in our report. Contraventions will only be listed if we become aware of a contravention whilst performing our engagement.
- We are also required to report certain contraventions to the CIPC.<sup>2</sup>

We will not perform an audit or review of such financial statements and, accordingly, we will not express an assurance opinion on them. Only a registered auditor may issue an audit on a set of financial statements.

We have adopted the SAIBA Engagement Framework for Accounting Officer Engagements to assist us in performing accounting officer engagements.

This Framework requires that we plan and perform the accounting officer engagement in a manner that will enable us to assess whether a positive or negative affirmation should be made in terms of underlying statutory requirements.

An accounting officer engagement is primarily limited to inquiries of company personnel and thus do not provide any form of assurance.

An example accounting officer engagement report is included below.

An accounting officer engagement differs significantly from an audit or review of financial statements, in which the auditor or independent reviewer provides assurance that the financial statements, taken as a whole, are free of material misstatement.

An accounting officer engagement does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled cheques or bank images); and other procedures ordinarily performed in an audit. Accordingly, an accounting officer engagement does not provide assurance that we will become aware of all significant matters that would be disclosed in an audit. Therefore, an accounting officer engagement provides no assurance related to financial statements and whether they provide a true and fair view.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. However, we will inform the appropriate level of management of any material errors, and of any evidence or information that comes to our attention during the performance of our accounting officer engagement procedures that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our accounting officer engagement procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential.

As we discussed with you, it is our understanding that the accountants or other professionals that prepared or reported on your \_\_\_\_\_ financial statements is unaware of a matter that would make them recall any report that they might have issued on your financial statements.

Furthermore, we understand that we are authorized to communicate with the predecessor accountant or professional to discuss matters relevant to the current accounting officer engagement and to inspect working papers that may facilitate the performance of the current engagement. If during our current engagement, matters come to our attention that affect either the \_\_\_\_\_ financial statements or the accounting officer engagement report on those statements, we will communicate such matters to the predecessor accountant.

This engagement letter authorizes us to perform an accounting officer engagement for your close corporation. Any other services that you may request from us will be subject to separate engagement letters.

We may, if you request also advise you on your personal liability in terms of the Close Corporation Act, 1984. However this does not form part of our primary accounting officer duties.

### **MANAGEMENT RESPONSIBILITIES**

You are responsible for

- a) Making all management decisions and performing all management functions;
- b) Designating an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services;
- c) Evaluating the adequacy and results of the services performed;
- d) Accepting responsibility for the results of the services; and
- e) Establishing and maintaining internal controls, including monitoring ongoing activities.
- f) 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 management at year-end for the current financial year. It is the sole responsibility of the management 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 cognizance of any other requirements or agreements that may be applicable to the company.
- g) Our accounting officer will be conducted on the basis that you acknowledge and understand that you have responsibility:
  - a. For the preparation and fair presentation of the financial statements in accordance with any prescribed financial reporting framework and the requirements of the Companies Act of South Africa;
  - 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 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 engagement, and
  - d. Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our accounting officer engagement procedures, we will require certain written representations from management about the financial statements and matters related thereto.

If, for any reason, we are unable to complete our accounting officer engagement of your financial statements, we will not issue a report on such statements as a result of this engagement. You undertake to provide us with full access to all financial and related information to complete our work.

If there is a delay in producing your report we will notify you of the reasons thereof and provide expected completion dates. We will use all reasonable efforts to complete the engagement as described in this letter within the agreed-upon time frames. However, we shall not be liable for failures or delays in performance that arise from causes beyond my control, including the untimely performance by your company of its obligations.

#### **ACCESS AND REPORTS TO REGULATORY AUTHORITIES**

Accounting officers are not required to submit reportable irregularities to the Companies Commission or any other regulatory authority. However accounting officers may be required to submit information related to your business and any related financial information to relevant statutory authorities that are empowered by law or regulation to request this information. In some instances we are not allowed to inform you should we receive such a request. By accepting this engagement letter you authorize us to share your business detail and related financial information with these authorities.

We may also be required to provide access to our working papers or your client documentation to our professional membership body.

#### **USE AND DISTRIBUTION**

An accounting officer report is issued to the close corporation. Using the report in any other circumstances may not be appropriate. If you need a copy of our report then you may request a copy from our offices. You are not allowed to reproduce or alter our reports.

#### **ACCESS TO WORKING PAPERS**

Any document produced, altered or originated by us remains our property and will not be shared with any party. You may on request obtain access to our working papers on our premises. Any costs will be for your own account and access is determined in terms of the Promotion of Access to Information Act, 2000.

#### **DISPUTE RESOLUTION**

Any dispute that may arise between our firm or any staff member and the close corporation or management will be subject to our Dispute Resolution Policy. Any matter must be referred to our firm to be resolved. If any matter remains unresolved we may refer the matter to our professional body to mediate the issue.

#### **INDEMNITY AND LIMITATION OF LIABILITY**

You hereby agree to indemnify, defend (by counsel retained and instructed by me), and hold harmless our firm and its partners, agents, or employees, from and against any and all losses, costs (including legal fees), damages, expenses, claims, demands, or liabilities arising out of or in consequence of:

- The breach by your company, or its directors, officers, agents, or employees, of any of the covenants made by your company herein, including, without restricting the generality of the foregoing, the misuse of, or the unauthorized dissemination of, my report or the financial statements in reference to which the report is issued, or any other work product made available to you by my firm; and
- The services performed by our firm pursuant to this engagement, unless, and to the extent that, such losses, costs, damages, and expenses are found by a court of competent jurisdiction to have been due to the negligence of our firm. In the event that the matter is settled out of court, we will mutually agree on the extent of the indemnification to be provided by your company.

Our liability in terms of this engagement is limited, in accordance with all applicable law, to the fees charged by us for the engagement.

**FEES**

Our fee for these services will be based on the number of hours required by the staff assigned to complete the engagement. In accordance with our recent discussion, we believe that the engagement fee will not exceed Rxxxx. However, if we encounter unexpected circumstances that require us to devote more staff hours to the engagement than estimated, we will discuss the matter with you.

We look forward to a continued relationship with your company, and we are available to discuss the contents of this letter or other professional services you may desire.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely,

\_\_\_\_\_

Accounting Officer

Business Accountant in Practice (SA)

SAIBA 1234

Date

Address

\_\_\_\_\_

Management

Close Corporation

Date

## Report of the accounting officer to ABC Close Corporation

### Part I

We have performed the duties of accounting officer to **ABC Close Corporation** for the year ended 28 February 20xx as required by Section 62 of the Close Corporations Act, 1984. The annual financial statements set out on pages ... to ... are the responsibility of the members. No assurance is required by the Act to be carried out and no assurance engagement was conducted. Accordingly, we do not imply or express an opinion or any other form of assurance on the annual financial statements.

We report, as required in terms of section 62(1) of the Close Corporations Act of South Africa, having adopted such procedures and conducting such enquiries in relation to the accounting records as we have agreed with you, that:

- the annual financial statements are in [agreement/not in agreement] with the accounting records, summarized in the manner required by section 58(2)(d) of the Act; and
- the accounting policies presented to us as having been applied in the preparation of the annual financial statements are [appropriate/not appropriate].

### Part II

#### Scope

We have performed the duties of accounting officer as required by Section 62 of the Act and dealt with in Part I of this report, in terms of the procedures agreed with you and described below and in accordance with the framework for accounting officer engagements as adopted by our firm.

The procedures were undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures regarding financial information (ISRS 4400). The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of **ABC Close Corporation**. The procedures were performed solely to assist you in [*state purpose e.g. complying with the requirements of the Section 62 of the Close Corporation Act, 1984*] and should be used by you only for this purpose and shall not be distributed to other parties. The procedures are summarized as follows:

*[Insert list of procedures. Examples provided below]*

#### Examples:

1. *We obtained and checked the trial balance as at (date) prepared by ABC Close Corporation, and we compared the line items and totals to the financial statements.*
2. *We compare the closing and opening balances of prior and current financial years;*
3. *We obtained the bank reconciliations and compared the balance with the amount reflected on the trail balance;*

4. *We obtained a schedule of receivables and determined whether the total agrees with the trial balance;*
5. *Where applicable we obtained the inventory list and determined whether: (a) the total agrees with the balance in the trial balance; and obtained confirmation that the list is based on a physical count of inventory;*
6. *We obtain a schedule of the property, plant and equipment indicating the cost and accumulated depreciation and determined whether it agrees with the trial balance;*
7. *We obtained a schedule of trade payables and determined whether the total agreed with the trial balance.*
8. *We obtained the VAT reconciliation schedule and determined whether the totals agrees with the amounts as reflected in the trial balance.*
9. *We recalculated the public interest score and compared it to the calculation performed by the corporation.*
10. *We obtained the list of creditors and affirmation for the use of generally accepted accounting policies appropriate to the business of the corporation i.e. [Select the relevant framework e.g. IFRS or IFRS for SME or Modified Cash Basis of Accounting].*
11. *We read the accounting policies and compared this to the appropriate accounting framework as per the Companies Act, 2008 i.e. [Select the relevant framework eg. IFRS or IFRS for SME or Modified Cash Basis of Accounting]*

## **Findings**

*We report our findings below:*

*[Insert list of findings. Examples provided below]*

- a. *With respect to item 1 we found the addition [to be correct/ not correct] and the line items and the total amounts to be in agreement;*
- b. *With respect to item 2 we found the balances to be [in agreement/not in agreement];*
- c. *With respect to item 3 we found the amounts to be [in agreement/not in agreement];*
- d. *With respect to item 4 we found the amounts to be [in agreement/not in agreement];*
- e. *With respect to item 5 we found the amounts to be [in agreement/not in agreement] and [based/not based] on a physical count of inventory;*
- f. *With respect to item 6 we found the amounts to be [in agreement/not in agreement];*
- g. *With respect to item 7 we found the amounts to be [in agreement/not in agreement];*
- h. *With respect to item 8 we found the amounts to be [in agreement/not in agreement];*
- i. *With respect to item 9 we found the amounts to be [in agreement/not in agreement];*

- j. *With respect to item 10 we [found/did not find] the affirmation by creditors.*
- k. *With respect to item 11 we found that the accounting policies and framework are [in agreement/not in agreement].*

Because the above procedures do not constitute an assurance engagement made in accordance with International Standards on Auditing or International Standards on Review Engagements we do not express any assurance on the annual financial statements.

Had we performed additional procedures or had we performed an assurance engagement of the financial statements in accordance with a relevant International Standards such as the International Standard on Review Engagements, other matters might have come to our attention that would have been reported to you.

Part II of this report is solely for the purpose set out in the first paragraph thereof and for your information, and is not to be used for any other purpose, nor to be distributed to any other parties. This report relates only to the accounts and items specified above, and do not extend to the annual financial statements taken as a whole.

**Emphasis of matter (Dependent on circumstances – Select or delete the matter that applies)**

[We wish to draw attention to the fact that the annual financial statements are not in agreement with the accounting records as required by Section 56(1) of the Close Corporations Act, 1984.]

[We wish to draw attention to a matter relating to the appropriateness of the accounting policies applied. As stated in note 1 to the financial statements, the corporation applies *[note the appropriate accounting framework e.g IFRS or IFRS for SME or Modified Cash Basis of Accounting]*. According to this framework it is appropriate to the business of the corporation to value inventory at the lower of cost and net realizable value however the corporation has valued inventory at cost less anticipated selling costs.]

[We wish to draw attention to a contravention(s) of the Close Corporations Act which came to our knowledge during the performance of our duties as accounting officer. We are not required to perform specific procedures to identify contraventions of the Act. [Refer to the relevant section(s) contravened and explain the nature of the contravention].

[We wish to draw attention to the fact that a member/partner/employee of our firm is also a member of the corporation and all the members have consented in writing to our appointment as accounting officer under these circumstances.]

[Accounting Officer name and signature]

Business Accountant in Practice (SA) xxxxx

Date



Address