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ACCOUNTANTS: MANAGERS OF VALUE

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*Recommended Practice Guide 5 (Revised)*

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Guidance for Auditors on Engagements to  
Report on the Statement on Risk Management and  
Internal Control included in the Annual Report

## RECOMMENDED PRACTICE GUIDE 5 (REVISED)

### Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report

#### Foreword

The Council of the Malaysian Institute of Accountants has approved the issue of this revised Recommended Practice Guide (RPG) for issuance to members for guidance.

This RPG is issued to provide guidance for auditors in applying Malaysian Approved Standard on Assurance Engagements, International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* in the performance of a limited assurance engagement to report on the Statement on Risk Management and Internal Control included in the annual report.

This RPG should be read in conjunction with the Preface to Malaysian Approved Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, which sets out the application and authority of RPGs.

## RECOMMENDED PRACTICE GUIDE 5 (REVISED)

### GUIDANCE FOR AUDITORS ON ENGAGEMENTS TO REPORT ON THE STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL INCLUDED IN THE ANNUAL REPORT

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## Introduction

1. Paragraph 15.26(b) of the Main Market and rule 15.26(b) of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad (Listing Requirements) requires a listed issuer/corporation to include a statement about the state of internal control (SORMIC or Statement on Internal Control) in the annual report.
2. Paragraph 15.23 and rule 15.23 of the Listing Requirements requires a listed issuer/corporation to ensure that the external auditor reviews the SORMIC made by the Board of Directors pursuant to paragraph 15.26(b) and rule 15.26(b) and reports the results of the review to the Board of Directors.
3. Practice Note 9, Internal Control and Corporate Governance Statement of the Main Market Listing Requirements and Guidance Note 11, Internal Control and Corporate Governance Statement of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Malaysia) requires a listed issuer/corporation to address the Principle, Recommendation and Commentary in the Malaysian Code on Corporate Governance 2012 (Code) in the SORMIC, namely the following:

- (a) Principle 6 of the Code on recognising and managing risks which reads as follows:

*"The board should establish a sound risk management framework and internal control system."*

- (b) Recommendation 6.1 read together with the Commentary of the Code which states as follows:

*"The board should establish a sound framework to manage risks."*

Commentary:

- *The board should determine the company's level of risk tolerance and actively identify, assess and monitor key business risks to safeguard shareholders' investments and the company's assets.*
- *Internal controls are important for risk management and the board should be committed to articulating, implementing and reviewing the company's internal controls system.*
- *Periodic testing of the effectiveness and efficiency of the internal controls procedures and processes must be conducted to ensure that the system is viable and robust.*
- *The board should disclose in the annual report the main features of the company's risk management framework and internal controls system."*

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4. In preparing the SORMIC, a listed issuer/corporation should be guided by the “Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers” (SRMICG) which is issued by the Task Force on Internal Control in December 2012 with the support and endorsement of the Bursa Malaysia. The SRMICG is effective from financial years ended 31 December 2012.

The SRMICG is expected to set out internal control and risk management practices in place in the Company which includes the following:

- Commentary on the adequacy and effectiveness of the risk management and internal control system;
- Affirmation that a review on the adequacy and effectiveness of the risk management and internal control system has been undertaken; and
- Assurance received from the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) whether the Company’s risk management and internal control system is operating adequately and effectively in all material aspects based on the risk management and internal control system of the Company.

**Background to Malaysian Approved Standard on Assurance Engagements, ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information**

5. Malaysian Approved Standard on Assurance Engagements, ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) establishes basic principles, essential procedures and provides guidance for the performance of assurance engagements other than audits or reviews of historical financial information.
6. The auditors shall comply with ISAE 3000 when performing an assurance engagement to report on the SORMIC. ISAE 3000 uses the terms “reasonable assurance engagement” and “limited assurance engagement”. For the purposes of applying this RPG, the auditor shall apply the principles of a limited assurance engagement under ISAE 3000.
7. The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the auditors’ conclusion. In limited assurance engagement, the auditor chooses a combination of assurance procedures, which can include: inspection; observation; confirmation; recalculation; reperformance; analytical procedures; and inquiry. Determining the assurance procedures to be performed on a particular engagement is a matter of professional judgement.
8. The level of assurance engagement risk is higher in a limited assurance engagement than in a reasonable assurance engagement because of the different nature, timing or extent of evidence-gathering procedures. However, in a limited assurance engagement, the

combination of the nature, timing, and extent of evidence gathering procedures is at least sufficient for the practitioner (for the purpose of this RPG referred to as “auditor”) to obtain a meaningful level of assurance as the basis for a negative form of expression. To be meaningful, the level of assurance obtained is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential.

### Scope of this Recommended Practice Guide (RPG)

9. This RPG is issued to provide guidance to auditors in applying ISAE 3000 in the performance of a limited assurance engagement to report on the SORMIC included in the annual report.
10. The auditor is not required to consider whether the SORMIC covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Company’s risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditor is also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

### Ethical Requirements and Quality Control

11. The auditor shall comply with the By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants, issued by the Council of the Malaysian Institute of Accountants, and implement quality control procedures that are applicable to the individual engagement
12. The By-Laws provides a framework of principles that members of assurance teams, firms and network firms use to identify threats to independence, evaluate the significance of those threats and, if the threats are other than clearly insignificant, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level, such that independence of mind and independence in appearance are not compromised.
13. The auditor shall implement quality control procedures that are applicable to the individual engagement. Under Malaysian Approved Standard on Quality Control, ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*, a firm of professional accountants has an obligation to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that the assurance reports issued by the firm or engagement partners are appropriate in the circumstances. In addition, elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.

## Objectives

14. The objectives of the auditor are:
- (a) To obtain limited assurance about whether the SORMIC to be included in the annual report has been prepared, in all material respects, on the basis of the reporting criteria as set out in paragraphs 41 and 42 of the SRMICG;
  - (b) To report, in accordance with the auditor's findings, about whether anything has come to the auditor's attention that causes the auditor to believe, on the basis of the procedures performed and evidence obtained, that the SORMIC intended to be included in the annual report is not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the SRMICG to be set out, nor is factually inaccurate.

## Engagement Acceptance

15. ISAE 3000 requires that the auditor shall accept an assurance engagement only if the subject matter is the responsibility of a party other than the intended users or the auditor.<sup>1</sup> In applying the principles in ISAE 3000, in a limited assurance engagement under this RPG, the intended users are the Board of Directors of the Company and the responsible party would be the party charged with the preparation of the SORMIC for the limited assurance engagement, such as the management of the Company or a delegated committee of the Board of Directors. The Board of Directors subsequently adopts the SORMIC reported upon by the auditor based on the limited assurance engagement, for inclusion in the annual report pursuant to paragraph 15.26(b) of the Listing Requirements.
16. Before agreeing to accept a limited assurance engagement to report on the SORMIC, the auditor shall:
- (a) Determine that those persons who perform the engagement collectively possess the necessary professional competencies; and
  - (b) Assess whether, on the basis of a preliminary knowledge of the engagement circumstances and discussion with the Board of Directors and management, nothing comes to the attention of the auditor to indicate that the requirements of the By-Laws, ISAE 3000 or this RPG will not be satisfied.

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<sup>1</sup> ISAE 3000, paragraph 7



### Agreeing on the Terms of the Engagement

17. In applying the principles of ISAE 3000<sup>2</sup>, the auditor when engaged to report on the SORMIC shall agree the terms of engagement with the Board of Directors of the Company. The terms of engagement shall be recorded in writing.
18. The agreed terms of the engagement shall include:
  - (a) The objectives and scope of the engagement;
  - (b) The responsibilities of the auditor;
  - (c) The responsibilities of the Board of Directors and management;
  - (d) Identification of the reporting criteria for the preparation of the SORMIC;
  - (e) Reference to the expected form and content of any report to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.
19. An example of an engagement letter is included in Appendix 1 of this RPG.

### Planning and Performing the Engagement

20. The auditor shall plan and perform an engagement with an attitude of professional skepticism recognising that circumstances may exist that cause the SORMIC to be materially misstated, determined in accordance with paragraph 28.
21. In planning and performing the engagement, the auditor shall obtain an understanding of how the SORMIC has been prepared by considering, for example:
  - (a) The approach in identifying disclosures to be included in the SORMIC;
  - (b) Competency of personnel preparing the SORMIC;
  - (c) Significant deficiencies in internal control identified during the audit of financial statements and through internal audit activities; and
  - (d) The nature and extent of oversight in the preparation of the SORMIC.
22. The auditor applies the knowledge and understanding of the operations of the Company obtained during the audit of financial statements of the Company, including knowledge of

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<sup>2</sup> ISAE 3000, paragraph 10

risk management and internal controls, in performing limited assurance engagement to report on the SORMIC.

23. Malaysian Approved Standard on Auditing, ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* requires, among other things, that the auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis. The responsible party should consider such deficiencies reported by the auditor in the preparation of the SORMIC.

#### *Suitable Criteria*

24. ISAE 3000 requires the auditor to assess the suitability of the criteria when accepting the engagement.<sup>3</sup> Criteria can either be established by laws or regulations or specifically developed. The auditor shall apply paragraphs 41 and 42 of the SRMICG as the criteria to evaluate or measure the subject matter in performing this limited assurance engagement.

#### *Materiality*

25. When planning and performing the engagement, that auditor shall consider materiality with respect to evaluating whether the SORMIC has been prepared, in all material respects, on the basis of the reporting criteria, paragraphs 41 and 42 of the SRMICG.
26. The auditor considers materiality when determining the nature, timing and extent of evidence-gathering procedures, and when evaluating whether the subject matter information is free of material misstatement for the purposes of issuing the auditors limited assurance report. Considering materiality requires the auditor to understand and assess what factors might influence the decisions of the intended users, i.e. the Board of Directors of the Company.
27. As paragraphs 41 and 42 of the SRMICG allows for variations in the presentation of the subject matter information, the auditor considers how the adopted presentation might influence the decisions of the intended users. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the evaluation of the SORMIC, and the interests of the intended users.
28. A misstatement in the context of an engagement performed under this RPG is defined as the non-disclosure of one or more of the disclosures required by paragraphs 41 and 42 of the SRMICG to be set out, or a disclosure in the SORMIC that is factually inaccurate. For example, if the SORMIC does not disclose the process applied to deal with the material internal control aspects of any significant problems that are disclosed in the annual report this would constitute a misstatement.

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<sup>3</sup> ISAE 3000, paragraph 19

## Obtaining Evidence

29. The auditor shall perform procedures to obtain sufficient appropriate evidence to base the auditors' conclusion on the SORMIC.
30. Appendix 2 of this RPG contains examples of statements included in the SORMIC in accordance with the SRMICG and examples of procedures to obtain sufficient appropriate evidence to support these statements.
31. The auditor shall also read the SORMIC as a whole to identify whether other information included in SORMIC is consistent with the understanding of the auditor of the Company and is factually accurate. Other information in the SORMIC relates to disclosures other than those required by paragraphs 41 and 42 of the SRMICG.

## *Written Representation*

32. In applying the principles of ISAE 3000<sup>4</sup>, that auditor shall obtain written representations from the responsible party.
33. These written representations are obtained as close as possible to or on the date of the limited assurance report, but not after the date, and cannot replace other evidence which the auditor can reasonably expect to be available.
34. An example of a Representation Letter is included in Appendix 3 of this RPG.

## Subsequent Events

35. In accordance with paragraph 37 of the SRMICG, the annual assessment should consider issues dealt with in reports reviewed by the Board of Directors during the year together with any additional information necessary to ensure that it has taken into account all significant aspects of risks and internal control of the Company for the year under review and up to the date of approval of the SORMIC for inclusion in the annual report.
36. Therefore, in applying the principles of ISAE 3000<sup>5</sup>, the auditor shall consider subsequent events up until the date of the limited assurance report in accordance with paragraph 37 below.
37. The extent of consideration of subsequent events depends on the potential for such events to affect the SRMICG and to affect the appropriateness of the auditor's conclusion.

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<sup>4</sup> ISAE 3000, paragraph 38

<sup>5</sup> ISAE 3000, paragraph 41

## Documentation

38. The auditor shall document matters that are significant in providing evidence that supports the limited assurance report and that the limited assurance engagement was performed in accordance with ISAE 3000 and the requirements of this RPG.
39. In determining the extent of documentation to be prepared and retained the auditor may consider what is necessary to provide an understanding of the work performed on the basis of the principal decisions taken to another experienced auditor who has no experience with the engagement. This understanding is not expected to extend to the detailed aspects of the engagement without discussion with the auditor who prepared the documentation.

## Preparing the Limited Assurance Report

40. The limited assurance report shall include the following basic elements:
- (a) A title that clearly indicates the report is an independent limited assurance report.
  - (b) The addressee of the assurance report: an addressee identifies the Board of Directors to whom the limited assurance report is directed.
  - (c) An identification and description of the limited assurance engagement:
    - The nature of the engagement;
    - The financial period to which the engagement relates; and
    - The name of the entity to which the subject matter relates.
  - (d) The responsibilities of the responsible party for the preparation of the SORMIC and of the Board for its ultimate issuance in the annual report.
  - (e) Identification of the applicable criteria: this informs the Board of Directors how the SORMIC was evaluated so as to enable the Board of Directors to understand the basis of the auditor's conclusion.
  - (f) Auditors' responsibilities: this informs the auditors' role is to independently express a conclusion about the SORMIC.
  - (g) A statement that the engagement was performed in accordance with Malaysian Approved Standard on Assurance Engagements, ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, and the guidance published in RPG 5 (Revised), *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control Included in the Annual Report*.

- (h) A summary of the work performed: this informs the evidence-gathering procedures performed to understand the limited assurance conveyed by a conclusion expressed in the negative form.

Because in a limited assurance engagement an appreciation of the nature, timing, and extent of evidence-gathering procedures performed is essential to understanding the assurance conveyed by a conclusion expressed in the negative form, the summary of the work performed is ordinarily more detailed than for a reasonable assurance engagement and identifies the limitations on the nature, timing, and extent of evidence-gathering procedures. It may be appropriate to indicate procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement;

The summary of work performed, shall also include:

- (i) The fact that the engagement is conducted to obtain limited assurance about whether the SORMIC has been prepared, in all material respects, on the basis of the reporting criteria as set out in paragraphs 41 and 42 of the SRMICG and is factually accurate.
  - (ii) The fact that the auditors are not required to assess whether all risks and controls have been addressed by the Board of Directors or to form an opinion on the adequacy and effectiveness of the Company's risks and control procedures including the assessment and opinion by the Board of Directors and management thereon.
  - (iii) The fact that the auditors are not required to assess whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report and financial statements will, in fact, remedy the problems.
  - (iv) The fact that in a limited assurance engagement, the scope of evidence gathering procedures is less comprehensive than in a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.
- (i) The auditors' conclusion: the report shall contain a clear written expression of negative assurance.
  - (i) The restriction on distribution or use: the report should contain a statement restricting the use of the report to the Board of Directors in accordance with the listing requirements of Bursa Malaysia and for no other purposes.
  - (k) The date of the limited assurance report.

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- (l) The name of the firm, and a specific location, which ordinarily is the city where auditor maintains the office that has responsibility for the engagement.

An example of Independent Limited Assurance Report is included in Appendix 4 of this RPG.

### **Reporting by Exception**

- 41. The auditors shall report the following circumstances to the responsible party and the Board of Directors with a view to seek revision of the SORMIC, if they conclude that there is:
  - (a) A material misstatement in the disclosures in SORMIC as required by paragraphs 41 and 42 of the SRMICG;
  - (b) A material misstatement or inconsistency in the other information contained in the SORMIC; or
  - (c) Insufficient appropriate evidence to support one or more disclosures made in the SORMIC pursuant to the requirements of paragraphs 41 and 42 of the SRMICG.
- 42. If revisions sought are not accepted, the auditors shall consider the guidance in paragraphs 45 to 47 of this RPG if these revisions are deemed material.
- 43. If the misstatements are not material, the auditor shall include them in the representation letter.

### **Qualified Conclusion, Adverse Conclusion and Disclaimer of Conclusion**

- 44. The auditor shall not express an unqualified conclusion when the following circumstances exist and, in the auditor's judgement, the effect of the matter is or may be material:
  - (a) There is a limitation on the scope of the auditor's work, that is, circumstances prevent, or a restriction is imposed that prevents, the auditor from obtaining sufficient appropriate evidence required to reduce assurance engagement risk to the appropriate level. The auditor shall express a qualified conclusion or a disclaimer conclusion;
  - (b) There is a material non-disclosure of information required by paragraphs 41 and 42 in the SORMIC. The auditors shall express a qualified conclusion or an adverse conclusion.; or
  - (c) There is a material misstatement or inconsistency in the information contained in the SORMIC. The auditor shall express a qualified conclusion or an adverse conclusion.

### Other Reporting Responsibilities

45. The auditor shall consider other reporting responsibilities, including the appropriateness of communicating relevant matters of governance interest arising from this limited assurance engagement with the Board of Directors.
46. If the auditor believes that the responsible party or the Board of Directors will not take appropriate action to avoid a qualified conclusion, adverse conclusion or disclaimer of conclusion, the auditor shall consider one or more of the following actions
  - (a) Withdrawing from the engagement; or
  - (b) Reporting the qualified, adverse or disclaimer of opinion to the Bursa Malaysia.
47. The auditor shall, if he chooses to do so, allow the Board of Directors to include in the annual report a statement that the SORMIC has been reviewed by the auditor and reported on pursuant to RPG 5 (Revised). Where such a statement is set out, the auditor shall also require that the conclusions set out in the report issued should be suitably described.

### Effective date

48. This RPG is effective for limited assurance reports dated on or after 31 January 2014.

## Example of an Engagement Letter

*The following is an illustrative example of paragraphs that may be included in the auditor's engagement letter dealing with their responsibilities with respect to the Board of Directors' Statement on Risk Management and Internal Control as required by the Bursa Malaysia Securities Berhad Listing Requirements.*

To the Board of Directors

We are writing to confirm the terms and conditions upon which we have been engaged to review the statement on the state of internal control (Statement on Risk Management and Internal Control) intended to be included in the annual report for the [financial year/period ended] ..... required to be provided by the Board of Directors pursuant to the [Bursa Malaysia Securities Berhad (Bursa Malaysia) Main Market Listing Requirements/ Bursa Malaysia Securities Berhad (Bursa Malaysia) ACE Market Listing Requirements].

### Responsibilities of Board of Directors and Management

Management or a delegated committee of the Board of Directors or a specified party appointed by the Board of Directors are responsible for the preparation of Statement on Risk Management and Internal Control (SORMIC) in accordance with the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers issued by Bursa Malaysia Securities Berhad.

The SORMIC should include sufficient and meaningful information needed by shareholders to make an informed assessment of the main features and adequacy of the Company's risk management and internal control system in accordance with paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers (SRMICG).

Whilst the SORMIC is required to be in respect of the [financial year/period] covered by the financial statements included in the annual report and up to the date of approval of the SORMIC for inclusion in the annual report, if the Board of Directors become aware of events occurring between the date of approval of the SORMIC for inclusion in the annual report and the date of approval of the annual report, which materially affect the SORMIC, the Board of Directors should consider whether such events are properly addressed and adequately disclosed in the SORMIC.

### Responsibility of Auditors

Paragraph 15.23 of the Bursa Malaysia Listing Requirements states that the Company must ensure that the external auditors review the SORMIC and report the results thereof to the Board of Directors of the Company.



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Accordingly, we will carry out the engagement in accordance with Malaysian Approved Standard on Assurance Engagements, ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information and RPG 5 (Revised), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control Included in the Annual Report*.

The objectives of our engagement are to obtain limited assurance about whether the SORMIC to be included in the annual report has been prepared, in all material respects, on the basis of the reporting criteria as set out in paragraphs 41 and 42 of the SRMICG and to report, in accordance with the our findings, about whether anything has come to our attention that causes the us to believe, on the basis of the procedures performed and evidence obtained, that the SORMIC intended to be included in the annual report is not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the SRMICG to be set out, nor is factually inaccurate.

#### Scope of Engagement on Statement on Risk Management and Internal Control

We shall request sight of all documentation prepared by or for the Board of Directors in support of the SORMIC. The Board of Directors will provide us or cause the responsible party to provide us with such further information and explanations as we consider necessary. We may request you to provide written confirmation of oral representations which you make to us during the course of our engagement.

In accordance to paragraph 15.23 of the [*Bursa Malaysia Main Market Listing Requirements/ Bursa Malaysia ACE Market Listing Requirements*], our work will be restricted to:

[Enumerate procedures as required]

As our work is not designed to consider whether the SORMIC covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Company's risk management and internal control system including the assessment and opinion by the Board of Directors thereon, our work performed will not be designed to enable us to express any assurance as to whether or not your risk management or internal control system is adequate and effective. In addition, our audit of the financial statements should not be relied upon to draw to your attention to matters that may be relevant to your consideration as to whether or not your risk management or internal control system is adequate and effective.

The SORMIC may include assertions on, or the Board of Directors may obtain representations from the management on, the adequacy and effectiveness of the risk management or internal control system of the Company. Our role does not include forming any opinion on the Board of Directors assessment or management's representation on the adequacy and effectiveness of the Company's risk management and internal control system. Therefore, in no circumstances shall the contents of our report be read, construed or interpreted as any conclusion made or agreement by us with the Board of Directors assessment or management's representation.

If, after reviewing the SORMIC, we identify a material misstatement or inconsistency in the SORMIC and the circumstances are such that in our opinion, the matter has not been adequately

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addressed in the SORMIC, we will consider taking further appropriate action, including modification of our limited assurance report.

**Fees**

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. Our fees for this engagement are RM XXXXX (XXXXX only)

**Agreement of terms**

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the terms of engagement.

We look forward to full cooperation with your staff and we trust that they will make available to us the relevant records, documentation and other information requested in connection with our engagement.

(Audit firm)  
Acknowledged on behalf of  
(name of the Company) by

(signed)  
.....

Name and Title  
Date

**Example of statements included in the SORMIC in accordance with the SRMICG and possible evidence to support these statements**

Statement to disclose 'the process Board applied to deal with material internal control aspects of any significant problems disclosed in the annual report and financial statements'

Procedures that may be performed with respect to this statement include:

- (a) Obtain an understanding of the processes applied by the Board of Directors to ensure that significant problems are disclosed in the annual report and financial statements.
- (b) Review documentation to support the processes described.
- (c) Review the adequacy of the information provided and assess if the disclosure appropriately reflects the processes the Board of Directors have adopted.

Statement to disclose 'the process Board (or where applicable, its committees) has applied in reviewing the risk management and internal control system and confirming that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review'

Procedures that may be performed with respect to this statement include:

- (a) Obtain an understanding, through enquiring of the Board of Directors, of the process the Board (or where applicable, its committees) has applied in reviewing the risk management and internal control system and compare that understanding to the SORMIC intended to be included in the annual report.
- (b) Discuss with the Board of Directors, the actions that the Board has already taken, or being taken, with respect to identified significant failings or weaknesses.
- (c) Review documentation prepared for the Board of Directors to support the SORMIC and assess whether or not it provides sound support for the SORMIC.
- (d) Relate the SORMIC to the auditor's knowledge of the Company obtained during the audit of financial statements.

## Example of a Representation Letter

### Client's Letterhead

[To Auditor]

[Date]

Dear Sir,

This representation letter is provided in connection with your limited assurance engagement on the Statement on Risk Management and Internal Control (SORMIC) of [name of the Company<sup>6</sup>] intended to be included in the annual report for the [financial year/period ended] ..... for [the purposes of expressing a conclusion whether anything has come to your attention that causes you to believe that the SORMIC is not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers to be set out, nor is factually inaccurate.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

1. The SORMIC referred to above has been prepared and presented in compliance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers (SRMICG).
2. [To describe the responsible party] are responsible for the preparation of the SORMIC.
3. The Board of Directors have acknowledged responsibility for the design and implementation of internal control to prevent and detect fraud and error.
4. The Board of Directors have during the year carried out reviews of the adequacy of the Group's system of internal controls, covering all controls including financial, operational and compliance controls, premised upon a risk based assessment of the Group.
5. There is no material joint venture or associate that has not been dealt with as part of the Group for the purposes of the SORMIC. [Alternative representation: The Group includes material joint ventures and associate companies/Material joint ventures or associates that were not dealt with as part of the Group for the purposes of the SORMIC are as follows: (to list those joint ventures or associates)]

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<sup>6</sup> Refers to Group/Company as appropriate

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6.
  - (a) There exists an ongoing process within the Group for identifying, evaluating and managing the significant risks faced by the Group.;
  - (b) The ongoing process has been in place for the year under review and up to the date of the SORMIC for inclusion in the annual report.;
  - (c) The ongoing process has been regularly reviewed by the Board of Directors.;
  - (d) The ongoing process is in accordance with the SRMICG.
7. The summary of the processes the Board of Directors have applied in reviewing the adequacy and integrity of internal control disclosed in the SORMIC appropriately reflects those processes applied by the Board of Directors during the financial year.
8. The [refer to the responsible party] have made available to you all the supporting documentation that have been prepared by or for the Board of Directors to support our statement made in connection with the matters described in (6) above and such documentation provides sound support for the assertions in (6) above.
9. The processes that the Board of Directors have applied to deal with material internal control aspects of any significant problems disclosed in the annual report appropriately reflect those processes.
10. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the SORMIC as a whole. A list of the uncorrected misstatements is attached to the representation letter in Appendix I.
11. There has been no known actual or possible non-compliance with laws and regulations that could have a material effect on the SORMIC in the event of non-compliance. [Alternative representation: The Board of Directors have disclosed to you all known actual or possible non-compliance with laws and regulations that could have a material effect on the SORMIC.]
12. The Board of Directors have disclosed to you all significant facts relating to any known frauds or suspected frauds that may have affected the Group. [Alternative representation: There has been no known instances of fraud or suspected fraud that may have affected the Group.]
13. The [refer to the responsible party] have disclosed to you the results of their assessment of the risk that the SORMIC may be materially misstated as a result of fraud or error. [This representation is only required if there are instances of material fraud or error during the reporting period.]
14. The SORMIC is in respect of the financial period covered by the financial statements and up to the date of approval of the SORMIC for inclusion in the annual report. The Board of Directors have represented that they are not aware of any events occurring between the

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date of the approval of the SORMIC and the date of approval of annual report, which  
would materially affect the SORMIC.

Yours faithfully,  
(name of the Company)

Signature .....

Name :

(Position)

Signature .....

Name :

(Position)

## Example of Independent Limited Assurance Report

### Independent Auditors' Limited Assurance Report to the Board of Directors of [Company's name] on the Statement on Risk Management and Internal Control

We have been engaged to perform a limited assurance engagement on the accompanying Statement on Risk Management and Internal Control intended to be included in the annual report for the [financial year/period ended] ..... as set out in the attachment which has been stamped by us for identification purposes.

#### *[Describe the responsible party] Responsibility*

[Refer to the responsible party] are responsible for the preparation of the Statement on Risk Management and Internal Control in accordance with the "Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issues" as issued under the Bursa Malaysia listing requirements.

#### *Our Responsibility*

Our responsibility is to express a limited assurance conclusion on the Statement on Risk Management and Internal Control based on the procedures we have performed and the evidence we have obtained as to whether any matters have come to our attention that cause us to believe that the Statement on Risk Management and Internal Control has not been prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issues to be set out, nor is factually inaccurate.

We conducted our limited assurance engagement in accordance with Malaysian Approved Standard on Assurance Engagements, ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and RPG 5 (Revised), *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control Included in the Annual Report*.

#### *Summary of Work Performed*

Our engagement has been conducted to assess whether the Statement on Risk Management and Internal Control appropriately reflects the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issues.

In a limited assurance engagement, the scope of evidence-gathering procedures is less comprehensive than in a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

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[Enumerate procedures as required]

We are not required to consider whether the Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Company's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. We are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

*Conclusion*

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement on Risk Management and Internal Control intended to be included in the annual report is not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issues to be set out, nor is factually inaccurate.

*Restriction on distribution or use*

This report is made solely to the Board of Directors in accordance with the listing requirements of Bursa Malaysia and for no other purposes. We do not assume responsibility to any other person for the content of this report. It should not be copied or disclosed to any third party or otherwise quoted or referred to, in whole or in part, without our prior written consent.

(Audit Firm)

Kuala Lumpur

(Date) [to be dated on or after the Board has approved the SORMIC]



## Extracts of Relevant Bursa Malaysia Securities Berhad Listing Requirements

### Main Market Listing Requirements

#### Requirements of Auditors

##### 15.23 Review of statements

A listed issuer must ensure that the external auditors review a statement made by the board of directors of a listed issuer pursuant to subparagraph 15.26(b) below, with regard to the state of internal control of the listed issuer and report the results thereof to the board of directors of the listed issuer.

#### Statement on Directors 'Responsibilities on Audited Accounts and Internal Control

##### 15.26 Additional statements by the Board of Directors

A listed issuer must ensure that its Board of Directors makes the following additional statements in its annual report:

- (a) A statement explaining the Board of Directors' responsibility for preparing the annual audited financial statements; and
- (b) A statement about the state of internal control of the listed issuer as a group.

*[Cross reference: Practice Note 9]*

### Ace Market Listing Requirements

#### Requirements of Auditors

##### 15.23 Review of statements

A listed corporation must ensure that the external auditors review a statement made by the board of directors of a listed corporation pursuant to Rule 15.26(b) below, with regard to the state of internal control of the listed corporation and report the results to the board of directors of the listed corporation.

#### Statement on Directors 'Responsibilities on Audited Accounts and Internal Control

##### 15.26 Additional statements by the Board of Directors

A listed corporation must ensure that its Board of Directors makes the following additional statements in its annual report:

- (a) A statement explaining the Board of Directors' responsibility for preparing the annual audited financial statements; and
- (b) A statement about the state of internal control of the listed corporation as a group.

*[Cross reference: Guidance Note 11]*

## Extracts of Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers

### The Board's Statement on Risk Management and Internal Control

40. The statement pursuant to 15.26(b) of the LR should include sufficient and meaningful information needed by shareholders to make an informed assessment of the main features and adequacy of the Company's risk management and internal control system.
41. In its narrative statement, the board should disclose the following:
  - The main features of the Company's risk management and internal control system;
  - The ongoing process for identifying, evaluating and managing the significant risks faced by the Company in its achievement of objectives and strategies;
  - That such process has been in place for the year under review and up to the date of approval of this statement for inclusion in the annual report;
  - The process it (or where applicable, through its committees) has applied in reviewing the risk management and internal control system and confirming that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review;
  - That a review on the adequacy and effectiveness of the risk management and internal control system has been undertaken;
  - Commentary on the adequacy and effectiveness of the risk management and internal control system;
  - The process it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report and financial statements;
  - Where material joint ventures and associates have not been dealt with as part of the Group for the purposes of applying these guidelines, this should be disclosed; and
42. In its narrative statement, the board should also include whether it has received assurance from the CEO and CFO on whether the Company's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Company.



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