



TECHNICAL CIRCULAR:	5/2021 [TC 5_2021]
To:	ALL MEMBERS OF THE INSTITUTE
From:	Auditing Standards Committee
Date:	18 March 2021
Subject:	Illustrative auditor's report, engagement letter and representation letter for a non-statutory audit

There are instances where auditors/audit firms are requested to perform the audit of entities that are not registered in Cyprus and for which there is no obligation to undergo a statutory audit in the country of their origin. This is known as a non-statutory audit as there is no statutory or regulatory requirement to perform an audit but derives from a voluntary request of the audited entity (client of the auditor/audit firm).

The purpose of this technical circular is to provide an illustration of:

- an engagement letter (including an auditor's report on the financial statements) &
- a management representation letter

of a non- statutory audit of an entity which is not listed or is a Public Interest Entity as defined by the European Union (EU) Regulation.

Non- statutory audit is not required under any legislation. The auditor/audit firm is therefore not bound by the requirements of the Auditor's Law 2017 when it comes to the non- statutory audit of an entity. The audit requirements descend from the International Standards on Auditing (ISAs) for the purposes of the illustrative examples provided in this Technical Circular.

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The objective, scope and procedures of a contractual audit depend on the terms of the contract of engagement between the auditor/audit firm and audited entity. Prior to undertaking a non- statutory audit engagement, the auditor/audit firm should determine whether there is indeed no local statutory requirement for an audit in that particular jurisdiction as well as consider several factors to safeguard the appropriateness of undertaking such engagements, which could include, amongst others, the extent to which:

- (i) the company has any intent to file the auditor's report with local authorities of that jurisdiction;
- (ii) any other report by a distinct auditor/audit firm has been issued/filed already;
- (iii) any requirement for the auditor/audit firm to be registered in that jurisdiction etc.

Accordingly, professional skepticism needs to be applied on a case-by-case basis in determining the appropriateness of undertaking such engagements.

This technical circular applies when the entity being audited prepares financial statements in accordance with a general-purpose framework. A general-purpose framework is a financial reporting framework designed to meet the common financial information needs of a wide range of users as defined in ISA 700 (Revised) "Forming an Opinion and Reporting on Financial Statements" paragraph 7. A 'fair presentation framework' is used to refer to a recognised financial reporting framework under which the financial statements are being prepared e.g., International Financial Reporting Standards (IFRSs). It is assumed in the illustrations provided in this Technical Circular that the applicable financial reporting framework is IFRS as adopted by the EU or full IFRS as issued by the International Accounting Standards Board (IASB) or other relevant legislation.

Auditor's report on the financial statements

The illustrative auditor's report (included in the engagement letter - refer [here](#)¹) provides an unmodified audit opinion and relates to a company with no subsidiaries, in accordance with the requirements of ISA 700 (Revised).

¹ Auditor's report revised on 15/01/2024 to reflect the amendments to IAS 1 *Presentation of Financial Statements*, effective for annual reporting periods beginning on or after 1 January 2023, to require entities to disclose their material accounting policy information, instead of significant accounting policies.



There are certain changes to be made on the statutory auditor's report provided in the [Booklet with Illustrations of Auditors report](#), to derive to an audit report intended for a non- statutory audit. For example, any references to the Companies Law, CAP. 113 observed in a statutory audit report are removed in this example as the entity is not registered in Cyprus.

In relation to the 'Other Information' section, the requirements of ISA 720 (Revised) "Forming an opinion and reporting on financial statements" apply. Other information constitutes financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. For example, depending on law, regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual report:

- Management report, management commentary, or operating and financial review or similar.
- reports by those charged with governance (for example, a directors' report).
- Chairman's statement.
- Corporate governance statement.
- Internal control and risk assessment reports.

If other information is published with the financial statements, then the 'Other Information' section needs to be included in the auditor's report. In case however, where there is no other information published with financial statements, there is no need for an 'Other Information' section of the audit report.

Engagement Letter

The illustrative engagement letter (refer [here](#)) comprises the key paragraphs that an audit engagement letter should include, in accordance with the requirements of ISA 210 "Agreeing the terms of audit engagements". There are several differences from the engagement letter prepared for a statutory audit of a Company as illustrated in [Technical Circular 4/2020](#).

It is noted that the illustration exclusively addresses a non- statutory audit engagement and does not cover any other work that may be undertaken for which separate engagement letters should be prepared.

The illustrative engagement letter should be used with the Audit Terms of Business (refer [here](#)).



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Management Representation Letter

The illustrative management representation letter (refer [here](#)) is based on the requirements of ISA 580 “Written Representations”. This differs from the management representation letter prepared for a statutory audit (refer to [Technical Circular 3/2020](#)). Members are reminded that the representation letter needs to be tailored to the specifics of each engagement.

All illustrations have been uploaded on the Institute’s website in the section ‘Specialized Technical Material / Guides’ in category ‘Audit Issues’ to facilitate easy access to it at all times.