



MALAYSIAN INSTITUTE
OF ACCOUNTANTS
ACCOUNTANTS: MANAGERS OF VALUE

PROUD HOST:



World Congress
of Accountants 2010

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LEGAL COUNSEL REPRESENTATION LETTER

Legal matters such as litigations and claims of an entity may result in actual or contingent liabilities and thus may be required to be disclosed and/or provided for in the financial statements. These matters may affect the financial position or the result of an entity's operations.

It is the responsibility of the management of an entity to adopt policies and procedures to identify, evaluate, record and report on the outcome of any material legal matter. However, the auditor should seek evidence from different sources to corroborate management assertions.

The auditor should obtain sufficient appropriate audit evidence and ensure that all material legal matters have been identified, assessed and adequately reflected in the financial statements.

The auditor should request written representations from all legal counsel with whom the entity has consulted on material legal matters.

The following are extracts of Malaysian Approved Standards on Auditing ISA 501 – Audit Evidence – Additional Considerations for Specific Items (which is not-exhaustive) that are pertinent for reference:

Audit Procedures ISA 501 (paragraph 32)

The auditor should carry out audit procedures in order to become aware of any litigation and claims involving the entity which may result in a material misstatement of the financial statements. Such procedures would include the following:

- Make appropriate inquiries of management including obtaining representations.
- Review minutes of those charged with governance and correspondence with the entity's legal counsel.
- Examine legal expense accounts.
- Use any information obtained regarding the entity's business including information obtained from discussions with any in- house legal department.
- A request that the entity's legal counsel confirm the reasonableness of management's assessment and provide the auditor with further information if the list is considered by the entity's counsel to be incomplete or incorrect.

Request for Entity's Legal Counsel Representation Letter ISA 501 (paragraph 33 and 34)

Paragraph 33

When the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified or when the auditor believes they may exist, the auditor should seek direct communication with the entity's legal counsel.

Paragraph 34

The letter, which should be prepared by management and sent by the auditor, should request the entity's legal counsel to communicate directly with the auditor. When it is considered unlikely that the entity's legal counsel will respond to a general inquiry, the letter would ordinarily specify the following:

- A list of litigation and claim.
- Management's assessment of the outcome of the litigation or claim and its estimate of the financial implications, including costs involved.
- A request that the entity's legal counsel confirm the reasonableness of management's assessment and provide the auditor with further information if the list is considered by the entity's counsel to be incomplete or incorrect.

Management refusal to permit Auditor to Communicate with Entity's Legal Counsel and Entity's Legal Counsel Response ISA 501 (paragraph 37)

If management refuses to give the auditor permission to communicate with the entity's legal counsel, this would be a scope limitation and should ordinarily lead to a qualified opinion or a disclaimer of opinion. Where the entity's legal counsel refuses to respond in an appropriate manner and the auditor is unable to obtain sufficient appropriate audit evidence by applying alternative audit procedures, the auditor would consider whether there is a scope limitation which may lead to a qualified opinion or a disclaimer of opinion.

A sample of a legal counsel representation letter is included in the following attachment for illustrative purposes only.

Letter to be typed on entity's letterhead

[Date]
[Legal Counsel name and address]

Dear Sir/Madam,

CONFIRMATION REQUEST

In connection with the examination of our financial statements of the company for the year ended _____ [“the balance sheet date”], please furnish our auditors, _____ [“audit firm name”], a description and evaluation of any claims on legal proceedings including any unasserted claims, or any matters involving a possible contingent liabilities against the company, or which you are aware, in excess of _____ [“RM”]. [Auditor must determined the materiality limit used by the legal counsel].

The information sought only includes those matters to which you have been engaged in the form of legal consultation or representation which were current at any time during the abovementioned reporting period, or have arisen since the end of the reporting period, and up to the date of your response.

In addition, please provide our auditors with a list of documents of title to any assets and/or the amount of monies belonging to the Company which you may be holding as stakeholders or for safe custody and state if there is any lien on such documents or monies.

Please furnish our auditors of any unpaid legal fees (billed and unbilled) for services rendered by you to us as at _____ [“balance sheet date”].

We shall be grateful if you could send directly a copy of your reply to our auditors, _____ [“attention to, audit firm name, address”], with a copy to us by _____ [“date”]. For this purpose, a stamped self-addressed envelope is enclosed for your convenience.

Your prompt assistance in this matter will be appreciated. If you are unable to confirm or provide the information requested above, please advise us and our auditor of the reasons for any limitations or impediment to fulfilling this request.

Yours faithfully,

[Client name and designation]

cc: _____ [“Audit firm name”]

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