

George Lim
P.O.Box 22656
Luyang 88786 Kota Kinabalu, Sabah

Date:

The Bishop of Sabah and Standing Committees
Anglican Diocese of Sabah
Wisma Anglican, Jalan Lee Tet Phui,
88000 Kota Kinabalu, Sabah.

Dear Sirs / Madams,

ENGAGEMENT LETTER

Following our appointment as auditors of Anglican Diocese of Sabah, we are pleased to confirm our acceptance and the terms of our engagement for the financial year ending 31 December 2010 and 2011.

1 SCOPE OF AUDIT

- 1.1 The nature and extent of our procedures will vary according to our assessment of what is material in the context of the Diocese's financial statements, our assessment of the Diocese's accounting system and, where we wish to place reliance on it, the system's internal control, and may cover any aspect of the business's operations that we consider appropriate.
- 1.2 Our audit is not designed to identify all significant weaknesses in the Diocese's systems or matters of governance interest. However, we shall bring to the attention of the standing committees if such matters come to our notice during the course of our audit and shall report accordingly. We expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems or matters of governance interest that come to our notice.
- 1.3 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 some material misstatements, including those resulting from fraud and error, may remain undiscovered. Our audit should not be relied on to detect and disclose fraud and error that may exist.
- 1.4 Our audit opinion is intended for the benefit of those to whom it is addressed. The audit will not be planned or conducted in contemplation of reliance by any third party or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.
- 1.5 As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.
- 1.6 In order to assist us with the examination of your financial statements, we look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentation and other information requested in connection with our audit.

2 RESPONSIBILITIES OF STANDING COMMITTEES

- 2.1 The standing committees are responsible for the maintenance of the Diocese's accounting records and the preparation of annual financial statements which give a true and fair view in accordance with the applicable approved accounting standards and comply with the Act.
- 2.2 The standing committees are also responsible for making available to us, as and when required, all the Diocese's accounting records and all other records and related information, including minutes of all management and standing committees' meetings.
- 2.3 The responsibility for the prevention and detection of fraud and error remains with the standing committees and management of the Diocese mainly through the implementation and continued operation of an adequate system of internal control.

3 RESPONSIBILITIES OF AUDITORS

- 3.1 The objectives of the audit are to examine in accordance with approved standards on auditing and report to the Bishop of the Diocese on the financial statements produced by the standing committees.
- 3.2 We shall, as required to report whether in our opinion:
- (a) the financial statements have been properly drawn up in accordance with applicable approved accounting standards so as to give a true and fair view of the state of affairs of the Diocese as at the balance sheet date and the results and the cash flow of the Diocese for the year ended on that date.

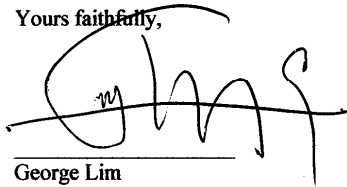
4 OTHER MATTERS

- 4.1 The working papers and files for this engagement created by us during the course of the audit, including electronic documents and files, are the sole property of auditor.
- 4.2 We shall not be liable in any way for failure or delay in performing our obligations under this engagement if the failure or delay is due to causes outside our reasonable control.

5 AGREEMENT OF TERMS

- 5.1 Once it has been agreed, this letter will remain effective unless it is terminated, amended or superseded. We shall be grateful if you would confirm your agreement to the terms of this letter by signing and returning the duplicate copy.
- 5.2 If the contents are not in agreement with your understanding of our term of engagement, we shall be pleased to receive your comments and to give you any further information you require.

Yours faithfully,



George Lim

Acknowledged, and in agreement with the terms of engagement as set out above:

X

The Right Rev. Albert Vun
Bishop of Sabah
Date:

George Lim
P.O.Box 22656
Luyang
88786 Kota Kinabalu, Sabah

Date:

The Bishop of Sabah and Standing Committees
Anglican Diocese of Sabah
Wisma Anglican, Jalan Lee Tet Phui,
88000 Kota Kinabalu, Sabah.

Dear Sirs,

RE: FINANCIAL YEAR ENDED 31 DECEMBER 2010 AND 2011

In connection with the examination of the above accounts, I would be appreciated if you could look into the following matters:-

1. Good Government

The good government shall consist of a balance of Clergy and Laity.

The constitution of Province has mentioned the "Good Government" in managing the Province matters and the Diocese.

We noted that there is unbalance in the standing committees, that is, out of the 5 Laity, two are Pastors and one is Bishop's nominee.

In this respect, there is no balance "sound governance control" to ensure the accuracy, completeness and transparency of the Diocese.

There are issues being raised by the members and the Diocese shall serious consider to setup a sub-committee and delegate this "concerned issue" responsibility to an "Independent Audit Committee" who make up of committees with relevant skill so that they can be addressed the issues professionally.

2. Province Advisory Committee

I understand that there was a visit by the province to look into the issues of the Diocese. Please provide us a copy of the report as this report may change the financial report for year 2010 and 2011.

3. New Cars Resolution and Purposes

There are no resolution on the purchase of Toyota Alphard at the price of RM129,000/-.

This purchase was drawn from the project fund. There is no guideline that the project fund can be used to purchase of expensive vehicle

Also, there was another new Honda CRV which cost RM147,793.50 from Bishopric fund.

The above vehicles if required and approved, shall be drawn from operational fund.

4. Account Staff

There is no qualified account staff to oversee the accounts as evidenced from the followings:

a. **Fixed Assets:** No details of b/f figures of RM623,452/- (NBV: RM3,885/-).

b. There is a discrepancy in **Kokol Prayer Summit** of about RM800K in the costs as shown in the Kokol Prayer Summit account (RM5.17m) and Diocese of Sabah account (RM6m) as at 31st December 2011.

c. There is no reconciliation of following **Other Receivables** account balances for many years and we are uncertain as to their accuracy, collectability and validity.

- MQ10 Renovation (Christ Church)	RM111,141.53
- ASAA Renovation	RM12,464.00
- Cafeteria Renovation	RM103,302.26
- Cafeteria equipment/utensils	RM20,963.05
- Consignment (Life Book Centre)	RM1,080.00
- The Olive Tree	RM22,239.55
- KK Land Sales	RM236,500.00
- Project Fund	RM45,000.00

There are no details of the other debtors of RM40,350.09/- and utilities deposits of 15,081.63/-.

The account 'Kunak shoplot' had no movement for many years in debit balance of RM181,956/-.

The account 'Sales of Penampang Shoplot' had no movement for many years which is RM41,000/-.

d. We noted that there were **(Other payables and Provision accounts) amount** of RM11,189.51/- which had remained no movements for many years which put under the account name 'Provision for tax', 'Provision for EPF' and 'Provision of Socso'.

e. There is no detailed list of **creditors** for the amount of RM149,233.53/-.

f. We are uncertain on the accuracy, collectability and validity of borrowers of RM1,750,502.63/- for the **Short Term Loan – RM1.7 Million** . There are no details who on the borrowers of RM936,278.79/-. Also there are credit balance of the borrowers overpaid of RM255,110.12/-.

As such, the accounts may not present a true picture.

5. Trust Deed

The trust deed dated 23 June 2012, however, the condominium in Bangkok Garden was purchased in 28 February 2009.

Trust deed has no legal effect on the true ownership.

An entity shall be incorporated as religious purposes to acquire the property overseas, the 100% shares of the entity can be wholly owned by Diocese.

6. Valuation Report

Independent valuation report is recommended to obtain before purchase of any landed property for better decision-making and for arm-length purposes.

Kindly confirm the fair value of the Menggatal land RM761,800.00 and the Sipitang land RM850,000.

7. Project Funds

There is no detailed accounts for utilization of the project funds of RM3,960,354/- in year 2010 and RM6,704,484/- in year 2011.

A detailed account outlined the expenditure shall be presented and audited, and annexed to the Diocese Financial Report.

Please provide detailed accounts of the above fund utilization.

We noted that there is no meeting record for approval of transfer of each and every project's fund and there is no budget presented to the Synod for approval.

We noted that there was an amount of RM85,000 was transferred to Bishop account in Bangkok as a deposit for application for Bishop Visa for Thailand my 2nd home. Please advise if this amount has been refunded the Diocese.

8. Payment to owners

We wish to bring your attention to the practice of payments to owners for under declaration of the price of the property. This involves ethical consideration subject to anti-avoidance of tax law. There are different in purchase price of Tenom shoplot was RM415,000/- and the actual price as showed in development fund of RM473,830/-.

9. Mission Fund

There are mission fund were used for academic purpose of approximately RM600,000 but there was no records or report in the meeting for the progress report of project. The same are for the China and Bangkok of approximately of RM650,000.

10. Diocese Supporting Ministry

Please provided us a copy of the audited reports of the ministries supported by Diocese and their accounts shall be annexed to the Diocese Financial Report.

11. Purchase of Land for Church Planting (RM7m)

The re-allocation of fund from “purchase of land” to “Development Fund” of RM6million departed from the original purpose as disclosed in year 2009 account is to purchase of land in interior.

These purchases for investment purposes not church planting of two shoplots in Sulaiman RM3.6m and one in I-Peak Business Centre (Lahad Datu) - RM961,919.03 in the town area, could not fulfill the objective of “mission to the Interior”.

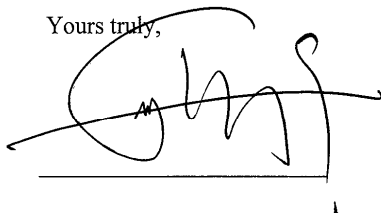
12. Cash Balances RM4,000/-

Please prepare the cash certificate duly signed by the respective custodian of the cash balances.

Meanwhile, should you require any further information and explanation, please do not hesitate to contact George Lim and Jia Huei.

Thank you.

Yours truly,

A handwritten signature in black ink, appearing to be 'G. Lim', written over a horizontal line. The signature is stylized and cursive.

ANGLICAN DIOCESE OF SABAH

Wisma Anglican, Jalan Lee Tet Phui,
88000 Kota Kinabalu, Sabah.

Date:

George Lim
P.O.Box 22656
Luyang
88786 Kota Kinabalu, Sabah.

Dear Sirs / Madams,

LETTER OF REPRESENTATION

This letter is furnished, at your request, in connection with your examination of the financial statements of the Diocese for the year ended 31 December, 2011.

We, being responsible for the preparation of the financial statements by law, hereby confirm that, to the best of our knowledge and belief, the following statements relating to the financial statements are true and fair, and applicable approved accounting standards:

1. General
 - (a) We have made available to you all:-
 - (i) financial records and related data.
 - (ii) minutes of the meetings of all standing committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - (b) There have been no irregularities involving management or employees.
 - (c) There are no plans or intentions that may materially affect the carrying value of classification of assets and liabilities as shown in the Diocese's financial statements.
 - (d) There are no:-
 - (i) violations of laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - (ii) other material liabilities and gain or loss contingencies as required to be accrued or disclosed.
2. Accounting Concepts and Policies
 - (a) The financial statements have been prepared on the basis of the generally accepted fundamental accounting concepts of 'going concern', 'accruals' and 'consistency'. The financial statements have also been prepared using the same policies as those of the previous year.

- (b) No circumstances have arisen which have rendered inappropriate the application of the 'going concern' concept and the continued use of the above-mentioned policies.

3. Current Assets

- (a) All current assets are expected to realize, in the ordinary course of business, not less than the amounts at which they are included in the balance sheet. In particular, adequate but not excessive allowance have been made against doubtful debts and to reduce all obsolete or slow moving inventories to net realisable value.
- (b) The amount of inventories included in the balance sheet is the valuation of quantities determined from the Diocese's inventory records, which were adjusted on the basis of physical inventories taken at the balance sheet date by employees under the supervision of officials of the Diocese.

We have identified all excess or obsolete inventories, and no inventories are stated at an amount in excess of net realisable values.

4. Assets Generally

- (a) The Diocese has satisfactory titles to all assets included in the balance sheet and no assets, which should have been included, have been omitted. There were no mortgages or other liens outstanding against the assets * except as disclosed in the financial statements.
- (b) The standing committees have considered the values of non-current assets, * including investments, and are satisfied that no * further allowance are required either due to any permanent impairment in the values of these assets or for any other reason.
- (c) There are no intentions to sell any assets in the immediate future at a value, which might give rise to a material unprovided loss.
- (d) * There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Footnote _____, we have no other line of credit arrangements.

5. Liabilities

- (a) All material liabilities at the balance sheet date have been included in the financial statements and adequate provision has been made for liabilities, which are known to exist, but the amount of which cannot be accurately determined.
- (b) There were no purchases or sale commitments in excess of normal level or at prices, which could give rise to a loss for which no provision has been made in the financial statements. In addition, no agreements have been entered into to repurchase items previously sold.
- (c) There were no contingent liabilities, including outstanding litigation and claims against the Diocese, at the balance sheet date * other than those disclosed in the financial statements. Adequate provisions have been made for all losses, which are likely to be incurred by the Diocese. None of the contingencies are expected to result in a material loss to the Diocese or in commitments, which it cannot meet.

6. Income Statement

The results for the year were not materially affected by:-

- (i) transactions of a sort not usually undertaken * except as disclosed in the financial statements; or
- (ii) circumstances of an exceptional or non-recurring nature * except as disclosed in the financial statements.

7. Events Since The Balance Sheet Date

Since the balance sheet date, there have been no events which could materially affect the state of affairs of the Diocese as shown by the financial statements at that date, the results for the year then ended or any of the figures in the financial statements or notes thereto.

8. Other Matters

There was no approved future expenditure * except as disclosed in the financial statements.

9. Loans/Transactions with Persons Connected with Standing Committees

- (a) The Diocese has not entered into arrangements or transactions to acquire or dispose of any non-cash asset (ie any property or interest in property other than cash) above the requisite value.
- (b) * The Diocese has not made loans or extended financial assistance to persons connected with the standing committees.

10. Related Ministries Transactions

During the year, the standing committees have identified and approved related ministries transactions and provided the information for disclosure of all material transactions relevant to the Diocese in the financial statements.

The Right Rev Albert Vun
Bishop of Sabah

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Date: