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| Management Letter Template | |
| Application  These instructions apply to the following: | |
| Types of audit and assurance work: | Type of entities: |
| * financial statements audit | * departments * statutory bodies * state owned corporations * companies * universities * local councils. |
| Instructions  The Engagement Controller (EC) must:   * review, sign and issue a management letter for all engagements where there are matters to report * tailor this template to suit the client and engagement * agree the risk ratings with the Engagement Quality Control Reviewer (EQCR) (where applicable) before issuing the management letter * before issuing a management letter, discuss the form, timing and expected content of the management letter with management and those charged with governance ([ASA 260](http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards.aspx) paragraph 18).   The EC does not need to issue a management letter if there are no matters to report. If no management letter will be issued, the EC must state this in the Client Service Report. | |
| Additional instructions for Contract Audit Agents (CAAs)  For all engagements where the CAA has identified matters to report, the CAA must prepare a management letter based on this template only after consulting with the EC.  Before sending the draft management letter to the EC to review, sign and issue, the CAA must:   * tailor this template to suit the client and engagement * agree the risk ratings with the EC or EQCR (where applicable) * discuss the form, timing and expected content of the management letter with the client’s management and those charged with governance (ASA 260 paragraph 18).   A management letter does not need to be issued if there are no matters to report. If no management letter will be issued, the CAA must state this in the Client Service Report. | |
| Timing of Management Letters  ECs should finalise and issue management letters detailing issues observed during the planning and interim phases of the engagement no later than:   * 30 June for the Top 40 state sector entities with a 30 June reporting date * 15 July for all other state sector entities with a 30 June reporting date * 31 July for local council entities with a 30 June reporting date * 31 December for entities with a 31 December reporting date.   ECs should aim to finalise and issue management letters from the final phase of the engagement no later than the issuing of the Client Service Report. If that is not possible, ECs must include extreme and high risk rated observations, together with management’s draft responses, in the Client Service Report. All management letters must be issued within six weeks of signing the Independent Auditor’s Report or by the time the cluster (and, if applicable, Internal Controls and Governance) Report to Parliament is ready for tabling – whichever comes first. | |
| Additional instructions for CAAs  The CAA must provide the draft management letter to the EC with sufficient time to allow the EC to achieve the timeframes stated above. | |
| Who the Management Letter must be sent to  Draft management letters must be sent to the key client management contact for comment. The EC (and CAA, if applicable) must exclude matters in which we suspect management was, or is involved, such as fraud or failure to comply with legislative, regulatory or contractual requirements.  Address management letters to the:   * Chair of the Board (or Chair of the Audit and Risk Committee (ARC) where applicable) and provide a copy to the Chief Executive Officer (CEO) * CEO where there is no Board, and provide copies to other relevant officers * Department Head in the case of departments, and provide a copy to the Chair of the ARC (where appointed) * Mayor or Administrator for councils, and provide a copy to the General Manager (where no Administrator is appointed) and the Chair of the ARC (where appointed).   If the EC (or CAA) is concerned the letter may not be distributed to all members of the Board, council or ARC, (the CAA must inform the EC, if applicable), the EC must take all reasonable steps to inform all members of the Board, council or ARC of the contents of the management letter ([ASA 260](http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards.aspx) paragraph Aus.19.1). | |
| The EC must consult with the EQCR (where applicable) and an Assistant Auditor‑General before deciding whether to send a copy of the management letter to the relevant Minister.  Contents of Management Letters  The management letter must include:   * significant weaknesses and areas for improvement identified in the current engagement * repeat issues - matters identified in previous years that management has not yet resolved satisfactorily. Repeat issues must be appropriately labelled * any significant matters resolved by management before the Management Letter was drafted, including an explanation of how the issue was resolved * a summary of significant matters the audit team already discussed with an individual member of the Board, council or ARC so all members of the Board, council or ARC are fully informed ([ASA 260](http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards.aspx) paragraph A39). * management’s responses to these matters, if received in time * an explanation of our concerns if the EC (or CAA) believes management’s comments are incorrect or misleading.   Ensure issues are included in the management letter in order of most significant to least significant, taking into account the EC’s (and CAA’s) assessment of the likelihood, consequence and risk against the risk matrix. | |
| Where a Parent Entity requests a Controlled Entity’s Management Letter  Auditors must not provide copies of a controlled entity’s management letter to the parent entity without written approval from the controlled entity. Where we do not have written approval from the controlled entity, the parent entity may request a copy of the management letter directly from the controlled entity.  Objective  Where the audit team has identified matters to report, this template helps them fulfil the requirements of [ASA 260](http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards.aspx) ‘Communication with Those Charged with Governance’ and [ASA 265](http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards.aspx) ‘Communicating Deficiencies in Internal Control to Those Charged with Governance and Management’.  Documentation  Management letter matters must be supported by sufficient and appropriate evidence in the audit file.  Electronic copies of Management Letters, including management’s responses, must be filed in the HPRM audit client container and the Iris audit file. | |
| Background  Australian Auditing Standards set requirements and provide guidance on communicating matters arising from the audit. Auditors must communicate specific matters and significant findings to those charged with governance. Various ASAs require the auditor to communicate certain matters to the appropriate level of management, or those charged with governance, on a ‘timely basis’ or ‘as soon as practicable’. Engagement managers must communicate these matters during the course of the engagement and in management letters.  Refer to [ASA 260](http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards.aspx) and ‘[Determining who are 'those charged with governance' of a public sector organisation](http://alfie/Audit-and-Assurance/Financial-Audit/Instructions-and-Guidance/Audit-GPFS---Planning/Determining-those-Charged-with-Governance/Determining-those-Charged-with-Governance)’, for guidance on distinguishing between management and those charged with governance. | |
| Additional instructions for CAAs  The Audit Office guide ‘Determining who are ‘those charged with governance’ of a public-sector organisation’ is available upon request. | |
| Management letters are an important product of our audit. Entities may assess the quality and ‘value for money’ of the audit by the content, presentation and timeliness of the management letter. | |

Contact:

Phone no:

Our ref:

[Contact Name]  
[Addressee[[1]](#footnote-1)]  
[Client Name]  
[Client Address]

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| Where there is no Board or ARC, address the letter to the CEO. For councils, address the letter to the Mayor/Administrator. Copies should also be given to other relevant officers. |

[date]

Dear [Mr/Mrs/Ms]

Management Letter on the [Planning/Interim/Final] Phase of the Audit

for the Year [Ending/Ended date]

The [planning/interim/final] phase of our audit for the year [ending/ended date] is complete. This letter outlines:

* matters of governance interest I identified during the current audit
* unresolved matters identified during previous audits
* matters I am required to communicate under Australian Auditing Standards.

I planned and carried out my audit to obtain reasonable assurance the financial statements are free from material misstatement. Because my audit is not designed to identify all matters that may be of governance interest to you, there may be other matters that did not come to my attention.

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| Include the following sentence when issuing a planning or interim management letter. |

[The audit is ongoing and I will inform you if we identify any new matters of governance interest as they arise.]

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| Include the appropriate sentence below for all audits except local councils. Tailor as required. |

The Management Letter may be sent to the Minister, if the Minister requests it.

[OR]

A copy of the Management Letter has been sent to the Minister.

For each matter in this letter, I have included my observations, risk assessment and recommendations. The risk assessment is based on my understanding of your business. Management should make its own assessment of the risks to the organisation.

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| Include the appropriate paragraph below. Tailor as required. |

I have kept management informed of the issues included in this letter as they have arisen. A formal draft of this letter was provided on [date]. This letter includes management’s formal responses, the person responsible for addressing the matter and the date by which this should be actioned.

[OR]

The draft management letter was given to [position] on [date] and to date I have not received a response. To ensure matters identified during the audit are communicated to you promptly, I have issued the letter without management’s responses.

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| Include the following paragraph only when:   * sending the draft management letter to management for comment * the client has not responded to the draft management letter. |

As soon as practicable, I recommend you:

* assign responsibility for implementing the recommendations
* develop an action plan, including a timetable, to implement the recommendations
* nominate an individual or establish a committee to monitor and report on progress.

The Auditor‑General may include items listed in this letter in the Report to Parliament. I will send you a draft of this report and ask for your comments before it is tabled in Parliament[[2]](#footnote-2).

If you would like to discuss any of the matters raised in this letter, please contact me on 9275 [XXXX] [or Name on 9275 XXXX].

Yours sincerely

[Name]  
Director, Financial Audit Services [or relevant title]

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| For agencies:  If the Management Letter is addressed to the Chair of the Board or ARC, send a copy to the CEO. If the Management Letter is addressed to the CEO, send a copy to other relevant officers.  For local councils:  If the Management Letter is addressed to the ARC, send a copy to the Mayor/Administrator and the General Manager (where no Administrator is appointed).  If the Management Letter is addressed to the Mayor/Administrator, send a copy to the General Manager (where no Administrator is appointed) and the ARC (where appointed). |

[cc: Chief Executive Officer / General Manager/ other relevant Officer]

[Planning/Interim/ Final] management

letter

for the year ending/ended [date]

[Name of Client]

I have rated the risk of each issue as ‘Extreme’, ‘High’, ‘Moderate’ or ‘Low’ based on the likelihood of the risk occurring and the consequences if the risk does occur.

The risk assessment matrix used is consistent with the risk management framework in [TPP12-03](http://www.treasury.nsw.gov.au/Publications/treasury_policy_papers/2012-TPP/tpp_12-03/tpp_12-03_risk_management_toolkit) ‘Risk Management Toolkit for the NSW Public Sector’.

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| Include the following paragraph for local councils only. |

This framework may be used as better practice for councils.

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|  |  | CONSEQUENCE | | | |
| LIKELIHOOD |  | Low | Medium | High | Very high |
| Almost certain | M | M | H | E |
| Likely | L | M | H | H |
| Possible | L | M | M | H |
| Rare | L | L | M | M |

The risk level is a combination of the consequences and likelihood. The position within the matrix corresponds to the risk levels below.

|  |  |  |
| --- | --- | --- |
| RISK LEVELS | | MATRIX REFERENCE |
|  | Extreme: | E |
|  | High: | H |
|  | Moderate: | M |
|  | Low: | L |

For each issue identified, I have used the consequence and likelihood tables from [TPP12-03](http://www.treasury.nsw.gov.au/Publications/treasury_policy_papers/2012-TPP/tpp_12-03/tpp_12-03_risk_management_toolkit) to guide my assessment.

Consequence levels and descriptors

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| Consequence level | Consequence level description |
| Very high | * Affects the ability of your entire entity to achieve its objectives and may require third party intervention; * Arises from a fundamental systemic failure of governance practices and/or internal controls across the entity; or * May result in an inability for the auditor to issue an audit opinion or issue an unqualified audit opinion. |
| High | * Affects the ability of your entire entity to achieve its objectives and requires significant coordinated management effort at the executive level; * Arises from a widespread failure of governance practices and/or internal controls affecting most parts of the entity; or * May result in an inability for the auditor to issue an unqualified audit opinion. |
| Medium | * Affects the ability of a single business unit in your entity to achieve its objectives but requires management effort from areas outside the business unit; or * Arises from ineffective governance practices and/or internal controls affecting several parts of the entity. |
| Low | * Affects the ability of a single business unit in your entity to achieve its objectives and can be managed within normal management practices * Arises from isolated ineffective governance practices and/or internal controls affecting a small part of the entity. |

Likelihood levels and descriptors

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| --- | --- | --- |
| Likelihood level | Frequency | Probability |
| Almost certain | The event is expected to occur in most circumstances, and frequently during the year | More than 99 per cent |
| Likely | The event will probably occur once during the year | More than 20 per cent and up to 99 per cent |
| Possible | The event might occur at some time in the next five years | More than 1 per cent and up to 20 per cent |
| Rare | The event could occur in exceptional circumstances | Less than 1 per cent |

# Summary of issues

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| Hyperlink text under ‘detail’ column to the issues. |

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| --- | --- | --- | --- | --- |
| Issue | Detail | Likelihood | Consequence | Risk assessment |
| [Example]: | | | | |
| 1 | [[Title of issue]](#_Issue_1:_[Title) | Likely | Medium |  |
| 2 |  |  |  |  |
| 3 |  |  |  |  |

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| Appendix |
| [Review of Matters Raised in Prior Years](#_Appendix) |

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| Discuss the risk rating for each management letter item with management and those charged with governance. The risk rating should be consistent with the entity’s own risk management framework. Where the entity’s risk management framework is used, the audit team must ensure they maintain documentation to reconcile to the standard risk management framework. This is to ensure issues are categorised in a consistent manner for reporting in the Auditor‑General’s Reports to Parliament.  Ensure the Management Letter includes all matters required. The Iris template ‘Other auditing and completion procedures’ (within other completion procedures in Iris) will help determine matters the audit team must communicate to management and those charged with governance.  Delete these example tables before issuing to management. |

# Issue 1: [Title of issue]

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| --- | --- | --- | --- | --- |
| Likelihood | Consequence | Systemic issue | Category | Risk assessment |
| [Almost Certain/ Likely/ Possible/ Rare] | [Low/ Medium/ High/ Very High] | [Yes/No] | [Strategic/ Operational/ Compliance/ Reporting] | [Strategic/ Operational/ Compliance/ Reporting] |
| Likely | Medium | Yes | Operational |  |

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| Observation |
| [Describe the source of the risk, including context and evidence to support the observation]  Client X’s current asset disposal policy does not require asset disposals to be authorised by a delegated officer. |
| Implications |
| [Describe what may occur if the risk eventuated and how it would impact the agency.  Consider:   * what is the risk exposure/possible impact * how large might the impact be * who could be affected * when the impact would be felt * why the issue is important].   Client X may be exposed to personnel concealing a theft or loss by recording a fraudulent asset disposal.  Unauthorised disposals may impact on Client X’s ability to deliver on its outcomes effectively or efficiently.  Over time, unauthorised disposals may have a material impact on the financial statements of Client X. |
| Recommendation |
| [Recommendations should be SMART:   * Specific * Measurable * Attainable * Realistic * Time‑bound].   Client X should amend its existing asset disposal policy to include a requirement that all asset disposals (for sales and write-offs) be authorised by a delegated officer. Assignment of delegations for the disposal should be aligned with the officer’s operational responsibilities. |
| Management response |
| [Agree/Disagree] |
| [Insert summary of management’s response]  Client X will amend and update the asset disposal policy and procedures and include an appropriate approval process. |

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| --- | --- |
| Person responsible: | Date (to be) actioned: |
| [Name of client personnel and role] | [Date] |

# Issue 2:

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| --- | --- | --- | --- | --- |
| Likelihood | Consequence | Systemic issue | Category | Risk assessment |
|  |  |  |  |  |

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| --- |
| Observation |
|  |
| Implications |
|  |
| Recommendation |
|  |
| Management response |
| [Agree/Disagree] |
| [Insert response] |

|  |  |
| --- | --- |
| Person responsible: | Date (to be) actioned: |
| [Insert Name and role] | [Insert date] |

# Issue 3:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Likelihood | Consequence | Systemic issue | Category | Risk assessment |
|  |  |  |  |  |

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| --- |
| Observation |
|  |
| Implications |
|  |
| Recommendation |
|  |
| Management response |
| [Agree/Disagree] |
| [Insert response] |

|  |  |
| --- | --- |
| Person responsible: | Date (to be) actioned: |
| [Insert Name and role] | [Insert date] |

# Issue 4:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Likelihood | Consequence | Systemic issue | Category | Risk assessment |
|  |  |  |  |  |

|  |
| --- |
| Observation |
|  |
| Implications |
|  |
| Recommendation |
|  |
| Management response |
| [Agree/Disagree] |
| [Insert response] |

|  |  |
| --- | --- |
| Person responsible: | Date (to be) actioned: |
| [Insert Name and role] | [Insert date] |

# Appendix

Review of matters raised in prior year management letters

The issues in this appendix were raised in previous management letters. For each of these issues, I have determined:

* how management has addressed the issue in the current year
* what management still needs to do to address unresolved issues.

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| --- | --- | --- | --- |
| Prior issues raised | Risk assessment | Assessment of action taken | Recommendation |
| [Examples] |  |  |  |
| Asset disposals not authorised |  | Further issues identified this year | Refer to Issue 1 |
| Approval of manual journals |  | Matter has been addressed by Management | Nil as matter addressed |

1. |  |
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   | [ASA 260](http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards.aspx) includes guidance on how to identify the appropriate person(s) to communicate with. |

   [↑](#footnote-ref-1)
2. Only include this second sentence if we intend on sending a draft of the AG’s Report to the client. [↑](#footnote-ref-2)