|  |
| --- |
| Annual Engagement Plan |
| Application |
| Type of audit and assurance work: | Types of entities: |
| * These instructions apply to general purpose financial statements (GPFS) audit engagements.
 | * departments
* statutory bodies
* state‑owned corporations
* companies
* universities
* does NOT apply to local and county councils (councils) and joint organisations.
 |
| **Instructions**Only use this template for engagements ending before 30 June 2020. A new template will be issued for agencies’ as their 30 June 2020 financial statement will be prepared under the *Government Sector Finance Act 2018*.Use this template for audits of all general purpose financial statements (GPFS) except councils and joint organisations. A separate [template](http://alfie/Audit-and-Assurance/Financial-Audit/Local-Councils/Audit-GPFS---Planning/local-council-client-service-plan) is available for councils and joint organisations.Issue separate engagement letters for additional non‑GPFS audits, reviews or audit‑related services requested under section 27B(3)(c) of the Public Finance and Audit Act 1983 or other Acts that are not mentioned in this Annual Engagement Plan (AEP). This AEP template is NOT suitable for those engagements.Engagement Controllers (ECs) should:* address the AEP to the Chief Executive Officer (CEO) or person charged with governance (Chair, Managing Director, Secretary or Department Head)
* assess whether an [Acknowledgement of Terms](#Agreement_Terms) needs to be signed
* tailor the AEP to include matters unique to the engagement
* tailor the AEP for smaller auditees, as it may not be useful or cost effective to include certain content
* consider the structure and reporting obligations for group audits and the components, identifying controlled entities with financial statements requiring separate Independent Auditor’s Reports (IARs)
* discuss relevant matters with the Chief Finance Officer and document these in the AEP
* issue the AEP electronically ‑ ECs can authorise Communications and Business Support (CBS) to use their electronic signature on the covering letter before converting it to a PDF
* issue a revised AEP if there is a change in nature or terms of the engagement, and the change is justified
* refer to the relevant Auditing Standards (e.g. [ASA 210](http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards.aspx), [ASA 600,](http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards.aspx) [APES 305](http://www.apesb.org.au/page.php?id=12)).
 |
| Additional instructions for Audit Service Providers (ASPs)This AEP needs to be signed and issued in electronic format by the EC, not the Audit Service Provider (ASP) partner or staff. Before sending the AEP to the EC to review, sign and issue, the ASP should perform the actions listed above. The ASP should prepare a revised AEP for the EC to reissue if there is a change in nature or terms of the engagement, and the change is justified. |
| Timing, issuing and signingECs should aim to issue the AEP six months before year end.ECs should review, sign and issue the AEP no later than the end of:* December for 30 June audits included within the scope of the Internal Controls and Governance Auditor‑General’s Report (Top 40)
* February for the remaining 30 June audits
* July for 31 December audits (applies to 2019 engagements onwards).

The EC and relevant audit team members should present the AEP to the Audit and Risk Committee and/or Board of Directors. This may not be practical for smaller auditees or auditees in regional New South Wales. If meetings with these bodies are not planned for some time, the EC may consider discussing the AEP with the CEO/Chair/Managing Director/Secretary/Department Head, prior to the meeting.The auditee is not required to sign the Acknowledgement of Terms each year unless:* the engagement is new
* the scope of the engagement has changed e.g. the inclusion/exclusion of a non‑GPFS engagement within this AEP
* there is a change in the key personnel of the engagement, such as the auditee head, an ARC member or the EC etc.

The Engagement Information Request can be issued at the same time as the AEP if delivery dates have been agreed with management. |
| Additional instructions for ASPsASPs should provide the draft AEP to the EC with sufficient time to allow the EC to achieve the timeframe stated above.The ASP and where practical the EC, should present the AEP to the Audit and Risk Committee and/or Board of Directors. This may not be practical for smaller auditees or auditees in regional New South Wales. If meetings with these bodies are not planned for some time, the EC may consider discussing the AEP with the CEO/Chair/Managing Director/Secretary/Department Head, prior to the meeting. |
| Group AEPThe EC may, if the parent and controlled entities approve, issue one AEP for the group, after considering:* the governance and reporting arrangements for the group and its components
* legal reporting requirements, including whether separate IARs are required for individual components
* legal requirements for appointment as auditor
* the structure and degree of NSW public sector ownership
* the component’s degree of independence from the parent entity.
 |
| Additional instructions for ASPsThe ASP may, with approval of the EC, parent and controlled entities, issue one AEP for the group, after considering the factors listed above. |
| **Objective**This template sets out the AEP’s general content, format and the covering letter to help auditors comply with:* ASA 210 ‘Agreeing the Terms of Audit Engagements’
* APES 305 ‘Terms of Engagement’
* ASA 600 ‘Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)’.

**Documentation**File the signed covering letter, AEP and the auditee’s Acknowledgement of Terms (where applicable) in both the auditee’s HPCM z file container and the audit file. |
| Additional instructions for ASPsFile the signed covering letter, AEP and the auditee’s Acknowledgement of Terms (where applicable) in the audit file. |

[Name]
[CEO / Chair / Managing Director / Secretary / Department Head]
[Auditee Name]
[Auditee’s Address]

Contact:

Phone no:

Our ref:

[date]

Dear [Mr/Mrs/Ms]

Audit of the [Auditee Name]

for the year ending [date]

Attached is the Annual Engagement Plan (AEP) for the audit of the [Auditee Name]’s financial statements for the year ending [date]. The AEP reflects conditions unique to this engagement. You will find the standard Terms of Engagement on the Audit Office website at <https://www.audit.nsw.gov.au/our-stakeholders>.

If you would like to discuss the AEP, please call me on [phone number] or [*insert name of* audit leader, audit service provider etc] on [phone number]. The AEP will be presented to the next Audit and Risk Committee on [date of next meeting].

|  |
| --- |
| Only include the sentence below if the auditee is required to sign the ‘Acknowledgement of Terms’ for the year. |

[Please detach, sign and return the enclosed ‘[Acknowledgement of Terms](#Agreement_Terms)’.]

Yours sincerely

[Name]
[Director / Audit Leader], Financial Audit Services

# [Auditee logo]

|  |
| --- |
| An auditee is not required to sign the ‘Acknowledgement of Terms’ each year. Auditees are only required to sign an ‘Acknowledgement of Terms’ for:* new engagements
* engagements where the scope has changed e.g. the inclusion/exclusion of a non‑GPFS engagement within this AEP
* engagements where the key personnel (auditee head, ARC or the EC) have changed.
 |

ACKNOWLEDGEMENT OF TERMS

## Audit of the [Auditee Name]’s financial statements

I confirm the information in the Annual Engagement Plan and [Terms of Engagement](https://www.audit.nsw.gov.au/our-stakeholders) accords with my understanding of the arrangements for the audit of the financial statements of the [Auditee Name] (the [abbreviated name]).

|  |
| --- |
| The Audit Office may only share its communications about a controlled entity with the governing body of a parent entity if the controlled entity has authorised the release of this information. Select the first option below where the AEP is for the parent entity, which has obtained permission from its controlled entity. Use the second option where the AEP is for the controlled entity. Delete if neither option is applicable. |

[I have obtained permission from [Insert the name of the authorised person from the controlled entity] allowing the Audit Office to discuss matters relating to the financial audit of [Controlled Entity’s Name(s)] with the [abbreviated name] and provide us with copies of [its/their] reports.]

[OR]

[I authorise the Audit Office to discuss matters relating to the financial audit of [abbreviated name] with [Parent Entity Name] and to provide it with copies of its reports].

I acknowledge management’s responsibilities as outlined in these documents on behalf of the [abbreviated name]:

Signed:

Name:

Title:

Date:

The purchase order number for the total estimated audit fee is:

Purchase Order Number:

Annual

Engagement Plan

for the year ending [date]

[Auditee Name]

|  |
| --- |
| contents |
|  |  |  |

|  |
| --- |
| Update all fields and Page Numbers in the table below once the draft is complete. |

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[3. AUDIT APPROACH 3](#_Toc14249444)

[4. [EARLY/HARD] CLOSE PROCEDURES 3](#_Toc14249445)

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1. SCOPE

This Annual Engagement Plan (AEP) contains important information about this year’s audit.

The scope of our audit comprises:

* an Independent Auditor’s Report on the [Auditee Name]’s (the [abbreviated name]) general purpose financial statements in accordance with section [41C/45F] of the Public Finance and Audit Act 1983 (PF&A Act)
* Independent Auditor’s Report(s) for the engagements listed under section [7] Other engagements
* [insert the name(s) of other engagements performed].

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

This AEP is for the audit of the financial statements of [Parent Entity Name] only. A separate AEP will be issued for each of [Parent Entity’s Name]’s controlled entities:

* [list each controlled entity for which an AEP will be prepared].

[OR]

This AEP is for the audit of the financial statements of [Parent Entity’s Name] and its controlled entity[ies] listed below:

* [list each controlled entity for which an AEP will not be prepared].

A separate AEP will not be issued to the controlled entity[ies]. Please inform the governing body[ies] of relevant matters covered in this AEP.

1. KEY ISSUES

|  |
| --- |
| Only insert the section below if your university has been selected to trial key audit matters in the Independent Auditor’s Report. |

## Key audit matters

In December 2015, the Auditing and Assurance Standards Board introduced ASA 701 ‘Communicating Key Audit Matters in the Independent Auditor’s Report’. This Auditing Standard established key requirements regarding the communication of Key Audit Matters (KAMs) in the Independent Auditor’s Report.

KAMs are those matters that, in the auditor’s judgement, were of most significance in the audit of the financial statement of the current reporting period and are selected from matters communicated with those charged with governance.

While not mandatory for the public sector, the Audit Office believes KAMs will add value to users by providing broader insights, increased transparency and better readability.

We will pilot the principles of ASA 701 on the audit of [*abbreviated name*]’s financial statements. While we will not include a ‘Key Audit Matters’ section in the Independent Auditor’s Report, the pilot will enable the Audit Office and [*abbreviated name*] to consider key implementation issues such as:

* identifying KAMs relevant to the audit
* determining the level of detail to communicate about the auditor’s response to identified matters
* the timing of communications with key stakeholders.
* We will discuss the pilot with management and provide an update on progress in the Engagement Closing Report.

|  |
| --- |
| When completing the table below also consider:* matters noted when understanding the entity and its environment
* repeat findings
* significant matters
* issues/developments in the [‘Financial Reporting Issues and Developments’](https://www.audit.nsw.gov.au/our-stakeholders/state-entities) publication on the Audit Office website. Audit teams should identify and report key issues/developments relevant to the auditee below or in section 10, as appropriate.
 |

## Matters of interest to those charged with governance

The table below details our audit assessment of issues and risks that may impact this year’s audit and how the audit team will respond to them.

|  |
| --- |
| Include the sentence below if the audit risk is assessed as greater than normal. |

[Our assessment of audit risk for the [abbreviated name] is greater than normal. Factors affecting our assessment include [insert details of factors affecting the risk assessment as greater than normal]].

| Issue or risk | Exposure | Audit response |
| --- | --- | --- |
| Significant audit risks |
| New accounting standards applicable for 2019 financial statements |
| [example for university only – modify as required]The following new accounting standards issued by the Australian Accounting Standards Board became effective from 1 January 2019:* AASB 15 ‘Revenue from Contracts with Customers’
* AASB 16 ‘Leases’
* AASB 1058 ‘Income of Not‑for‑Profit Entities’.

Significant preparation is required to apply these standards and ensure the 2019 financial statements have materially complied with the requirements.[Add details specific to your university if required].Further details on the requirements of these new standards are in [Appendix two](#Appendix_two). | [example for university only – modify as required]Not being sufficiently prepared to apply the new accounting standards in the 2019 financial statements, including having the necessary comparative information. | [example for university only – modify as required]We will review the University’s assessment of the impacts on the 2019 financial statements for application of AASB 15, 16 and 1058 to ensure the:* recognition and measurement requirements have been considered across all income streams and lease agreements/service contracts as appropriate
* disclosure requirements have been reflected in the 2019 financial statements, including comparatives (where appropriate).
 |
| [enter information here] | [enter information here] | [enter information here] |
| Other key issues |
| [enter information here] | [enter information here] | [enter information here] |
| [enter information here] | [enter information here] | [enter information here] |

The significance of the issues and risks may change, and new developments may emerge during the audit. We will inform you if significant new matters arise and their likely impact on the audit.

1. AUDIT APPROACH

## Audit approach for key business and accounting processes

The audit approach is developed based on our understanding of the issues, new developments and key risks that may impact the financial statements. We have obtained an understanding of [abbreviated name]’s business and accounting processes and internal controls relevant to the financial statements to help us identify risks that may impact the financial statements.

[Appendix one](#Appendix_one) details our observations on the business and accounting processes relevant to the financial statements and our planned audit approach. We will inform you of significant matters that impact the audit as they are identified.

Your feedback on the planned audit approach is welcomed.

## Follow up of issues identified in the previous audit

The audit team will examine, update and report on the status of issues raised in last year’s Engagement Closing Report and Management Letter[s].

1. [EARLY/HARD] CLOSE PROCEDURES

|  |
| --- |
| The wording below only applies to 31 December engagements if early/hard close procedures are planned. |

The [abbreviated name] is planning the following [early/hard] close procedures:

* [list these procedures with as much detail as needed after considering the auditee’s attitude to and understanding of early/hard close procedures].

The [abbreviated name] has agreed to give the outcomes of its [early/hard] close procedures to the audit team by the dates in the Engagement Timetable. The Engagement Information Request [will detail/details] the work papers and supporting documents needed for timely completion of the audit.

The audit team will give management its observations on the [early/hard] close outcomes in time for them to be considered in the [abbreviated name]’s year‑end financial reporting process.

1. ENGAGEMENT COMMUNICATIONS

## Communications to ‘Those Charged with Governance’

Senior members of the audit team will attend meetings of the Audit and Risk Committee and brief those charged with governance on audit progress, identified issues and their resolution.

|  |
| --- |
| Select either option below as appropriate. |

We have discussed the meeting schedule(s) with management and those charged with governance. The Audit Timetable details the meetings we plan to attend.

[OR]

We will liaise with management and those charged with governance to determine the meetings we will attend.

The audit team has identified those charged with governance for the [abbreviated name] as:

|  |
| --- |
| * List those charged with governance ‑ refer to Guidance Note ‘Determining who are those charged with governance of a public‑sector organisation’ on Alfie.
* Identify relevant persons from the list you will communicate with and the reports they will receive.
* Determine whether those charged with governance of controlled entities should be listed if only one AEP is to be issued for the parent and its controlled entities.
 |

Please advise the audit team if additional persons charged with governance should be included in these communications. The [Terms of Engagement](https://www.audit.nsw.gov.au/our-stakeholders) contains more information on the Audit Office’s communication obligations.

1. ENGAGEMENT TIMETABLE

|  |
| --- |
| The timetable below applies to all engagements but can be tailored as appropriate.For 31 December engagements remove references to early close procedures if they will not be performed.Include scheduled Audit and Risk Committee meetings in the timetable to show how they coincide with other critical dates. |

The engagement timetable, designed to achieve statutory financial reporting requirements, has been discussed and agreed with [name and title of auditee officer].

|  |
| --- |
| Include the paragraph below if emailing the Engagement Information Request (renamed Client Assistance Schedule) together with the AEP. Tailor the paragraph as required. |

The Engagement Information Request accompanies this AEP with dates agreed with management to deliver the information required for the audit. Whilst we make every effort to identify all information requirements in the Engagement Information Request, we may need to request further information during the audit.

| Event | Date(s) |
| --- | --- |
| * Audit team starts audit planning
 |  |
| * Audit team emails Engagement Information Request to [Chief Financial Officer/Financial Controller/Finance Director]\*
 |  |
| * Audit team attends Audit and Risk Committee meeting to present the Annual Engagement Plan\*\*
 |  |
| * Audit team starts interim audit
 |  |
| * Management provides early close procedure outcomes to the audit team
 |  |
| * Audit team reports early close observations to management and Audit and Risk Committee Chair
 |  |
| * Audit Office issues management letter detailing issues from the interim audit
 |  |
| * Management gives financial statements and supporting working papers listed in the Engagement Information Request to the audit team
 |  |
| * Audit team starts audit of financial statements
 |  |
| * Audit clearance meeting
 |  |
| * Audit Office issues Engagement Closing Report
 |  |
| * Audit team attends Audit and Risk Committee meeting to present the Engagement Closing Report\*\*
 |  |
| * [Abbreviated name] seeks the Auditor‑General’s approval for changes to the financial statements. Refer to the standard [Terms of Engagement](https://www.audit.nsw.gov.au/our-stakeholders) for details
 |  |
| * Management gives the audit team final[[1]](#footnote-1) versions of draft Annual Report to review for consistency with the financial statements
 |  |
| * Audit Office issues Auditor’s Independence Declaration\*\*\*\*
 |  |
| * [Abbreviated name] signs and gives Management Representation Letter [and Those Charged with Governance Representation Letter][[2]](#footnote-2) to audit team (sample on the Audit Office website:

[https://www.audit.nsw.gov.au/our‑stakeholders/universities](https://www.audit.nsw.gov.au/our-stakeholders/universities)) |  |
| * Directors of [abbreviated name] pass resolution required under section 298(2) or 306(3) of Corporations Act 2001 (as relevant) relating to Directors’ Report\*\*\*\*
 |  |
| * [Abbreviated name] approves financial statements and [Chief Executive/ Department/Board/Council] signs statement
 |  |
| * Audit Office issues Independent Auditor’s Report, Statutory Audit Report and other letters to those charged with governance
 |  |
| * Audit Office issues final Management Letter
 |  |

|  |
| --- |
| \* Not applicable if Engagement Information Request delivery dates have been agreed with management and emailed with this AEP. |

|  |
| --- |
| \*\* ECs should include Audit and Risk Committee meetings they plan to attend if the auditee has set the meeting schedule for the year. |
| Additional instructions for ASPs:\*\* ASPs should agree with the EC which Audit and Risk Committee meetings the Audit Office and ASP plan to attend if the auditee has set the meeting schedule for the year. |

|  |
| --- |
| \*\*\* Audit teams should try to issue early close letters within one month (but no later than six weeks) of receiving the early close materials so management can respond to issues raised in its year‑end reporting process. |

|  |
| --- |
| \*\*\*\* Only applies to Corporations Act 2001 engagements, APRA regulated entities or entities registered with the Australian Charities and Not‑for‑profits Commission (ACNC). Amend wording where relevant.Target dates for engagements subject to the Corporations Act 2001 needs to comply with section 307C (5A) of the *Corporations Act 2001* and adhere to the following conditions:1. the Auditor’s Independence Declaration needs to be issued to the Company before the Directors pass the resolution on the Directors’ Report
2. the Directors’ Report needs to be signed no later than seven days after the Auditor’s Independence Declaration
3. the Independent Auditor’s Report needs to be issued no later than seven days after the Directors’ Report is signed.

Note: Sections 298(2) and 306(3) of the Corporations Act 2001 stipulate Directors’ Reports for the full and half year needs to be made in accordance with a resolution of Directors, specify the date the report is made and signed by a Director. |

1. OTHER ENGAGEMENTS

## [Insert heading for new/ recurring engagements]

[e.g. Audit under the Charitable Fundraising Act 1991, Audit/Review of Australian Financial Services (AFS) Licence. Only include audits where the Audit Office issues the opinion.]

## Additional Engagements[[3]](#footnote-3)

The [abbreviated name] may require audits of grant acquittals, compliance with legislation, or to provide assurance on information, reports or returns under the terms of a contract, lease or agreement.][[4]](#footnote-4)

Please advise the audit team if the [abbreviated name] wishes to engage the Audit Office to perform additional audits, reviews or acquittals. Separate engagement letters will be issued to confirm the terms, scope, key issues and fee arrangements for requests received after the issue of this AEP.

1. ENGAGEMENT FEES

|  |
| --- |
| You may include individual audit fees for each entity in the economic entity. |

|  |
| --- |
| Fee disclosures are detailed below and our standard charge‑out rates are disclosed on our website. Audit teams need to complete all fields in the table below. Additional audit fees need to be explained. |

|  |
| --- |
| The total audit fee need to agree with Elite details.  |

|  | 20*X*X | 20*X*X | Increase/(decrease) |
| --- | --- | --- | --- |
|  | $ | $ | $ | % |
| Estimated audit fee |  |  |  |  |
| [Additional fees] |  |  |  |  |
| Total audit fee (excluding GST) |  |  |  |  |
| Total audit hours |  |  |  |  |
| Average hourly rate |  |  |  |  |

The estimated audit fee is based on estimated hours, the audit team structure and charge‑out rates, known changes in [abbreviated name]’s operations and audit requirements.

[Include a brief explanation of the reasons for any large movements in the audit fee or the audit hours].

The Audit Office has published its ‘pricing approach’ to provide transparency about its pricing model and hourly charge‑out rates for each role. The Audit Office performs multi‑layered benchmarking to promote accountability for its use of public resources. For more information, please refer to the publication on the Audit Office’s [website](https://www.audit.nsw.gov.au/our-stakeholders/state-entities).

The fee may change if matters, not known at the date of this plan, emerge during the audit and significantly change the estimated audit cost.

[Abbreviated name] will be invoiced monthly as costs are incurred. The Audit Office’s payment terms are 14 days.

Please provide the Audit Office with a purchase order for the total estimated audit fee.

|  |
| --- |
| Insert the table below if you have referred to other engagements in Section 7. |

The estimated audit fee for [insert the type of other engagement] is shown below.

|  | 20*XX* | 20*XX* | Increase/(decrease) |
| --- | --- | --- | --- |
|  | $ | $ | $ | % |
| Estimated audit fee |  |  |  |  |
| [Additional fees] |  |  |  |  |
| Total audit fee (excluding GST) |  |  |  |  |
| Total audit hours |  |  |  |  |
| Average hourly rate |  |  |  |  |

[Include a brief explanation of the reasons for any large movements in the audit fee or the audit hours].

1. ENGAGEMENT TEAM

## Engagement team

The proposed audit team for this engagement is:

|  |  |
| --- | --- |
| Engagement Controller: | [Name, Qualifications] |
|  | [Title] |
|  | 02 9275 [xxxx] |
|  | Email: |
|  |  |
| Engagement Manager: | [Name, Qualifications] |
|  | [Title] |
|  | 02 9275 [xxxx] |
|  | Email: |
|  |  |
| Director, IS Audit: | [Name, Qualifications] |
|  | [Title] |
| [where applicable] | 02 9275 [xxxx] |
|  | Email: |

## Involvement of other members in public practice (optional)

|  |
| --- |
| Include the following if the work of another auditor is used on some aspect of the engagement. This applies to audits performed by ASPs and engagements where aspects of audit work are outsourced. |

|  |  |
| --- | --- |
| Audit Service Provider Engagement Partner: | [Name, Qualifications] |
|  | [Title] |
|  | [*xx*] [*xxxx*] [xxxx] |
|  | Email: |
|  |  |
| Audit Service Provider Engagement Manager: | [Name, Qualifications] |
|  | [Title] |
|  | [*xx*] [*xxxx*] [xxxx] |
|  | Email: |

## Auditor independence

|  |
| --- |
| Where there is an actual or perceived threat to an auditor’s independence* complete the form ‘Threats, Safeguards and Contravention of Independence’ form (available from [**Alfie**](http://alfie/Audit-and-Assurance/Policies-Applicable-to-all-Engagements/2-3-Ethics-and-Independence/2-3-1-Ethics-and-Independence/2-3-1-ethics-and-independence))
* communicate this to the auditee by amending the paragraph below. Details of the threat need to be disclosed, including the steps taken to reduce the threat to an acceptable level.
 |
| Additional instructions for ASPsInclude the following for all audits after all known members of the audit team have completed ‘Schedule IV Declarations of Independence’ of the ‘Agreement to Provide Auditing Services’.Where there is an actual or perceived threat to an auditor’s independence, the ASP needs to:* inform the EC and complete ‘Schedule IV Declarations of Independence’ of the ‘Agreement to Provide Auditing Services (see section 7.9. and 8)
* communicate this to the auditee by amending the paragraph below. Details of the threat needs to be disclosed, including the steps taken to reduce the threat to an acceptable level. The EC is required to review this wording.
 |

We confirm, to the best of our knowledge and belief, the proposed audit team meets the independence requirements of the Australian Auditing Standards, [the Corporations Act 2001] and other relevant ethical requirements relating to the audit of the financial statements. In conducting the audit of the financial statements, should any contraventions to independence arise you will be notified of these on a timely basis. [As part of the audit process, you will be provided with a written independence declaration as required by the [Corporations Act 2001/APRA Prudential Standard SPS 510 ‘Governance’/Australian Charities and Not‑for‑Profits Commission Act 2012].

|  |
| --- |
| Complete the following if the audit is conducted in accordance with the *Corporations Act 2001* or is regulated by APRA. |

The [Corporations Act 2001/APRA Prudential Standard SPS 510 ‘Governance’] and ethical standards have specific restrictions on employment relationships between an auditee and members of its current or previous audit teams. Please discuss the prospective employment of a current or former audit team member with the Audit Office before starting formal employment negotiations with them.

1. FINANCIAL REPORTING MATTERS

[Appendix two](#Appendix_two) provides an overview of new accounting standards effective for the first time in the current financial year and beyond that are likely to have a significant impact on [abbreviated name]’s financial statements. The transition to and implementation of these standards will take a significant amount of time and effort. It is important management assess the impact of these standards on [abbreviated name]’s financial statements and adequately plans for their implementation.

1. REPORTING TO PARLIAMENT

|  |
| --- |
| Select the appropriate option below. |

|  |
| --- |
| Option 1 ‑ agencies |

The [*Insert year*] Auditor‑General’s Report to Parliament (the Report) will report on:

* the results of the audits for each cluster
* themes and analysis of individual reporting entities, focusing on results and key observations in the areas of financial reporting and controls and service delivery.

The ‘Internal controls and governance’ Report will report our findings and recommendations from our [*insert financial year*] financial audits relating to the internal controls and governance of 40 of the largest agencies in the NSW public sector. Each year we select a range of measures and report on those that present heightened risks that agencies should mitigate.

The Report may make recommendations for your agency, cluster agencies, central agencies or the sector more generally.

The draft Report commentary will be given to the Cluster Agency Head for consideration. Specific comments about your agency will be given to [auditee nominee] for consideration. The Audit Office would appreciate receiving your agency’s specific comments, within five working days of receiving the draft commentary. Responses should only be provided where there is fundamental disagreement with the factual content of the Report or the Audit Office’s interpretation of the data. This helps ensure the Report is not unduly delayed.

The draft Report needs to remain confidential during this process.

[Appendix three](#Appendix_three) provides details of recently tabled reports which may be relevant to [abbreviated name].

|  |
| --- |
| Option 2 ‑ universities |

The Auditor‑General’s Report to Parliament (the Report) for the 2019 audit will report on:

* the results of the audits for the sector
* themes and analysis of individual reporting entities, focusing on results and key observations in the areas of financial reporting and controls and service delivery.

The Report may make recommendations for the University or the sector more generally.

The draft Report commentary will be given to the [Vice‑Chancellor] for consideration. Specific comments about your University will be given to [auditee nominee] for consideration. The Audit Office would appreciate receiving the University’s comments, within five working days of receiving the draft commentary. Responses should only be provided where there is fundamental disagreement with the factual content of the Report or the Audit Office’s interpretation of the data. This helps ensure the Report is not unduly delayed.

The draft Report needs to remain confidential during this process.

[Appendix three](#Appendix_three) provides details of recently tabled reports which may be relevant to [abbreviated name].

1. OTHER MATTERS

## Workplace Health and Safety Legislation

Workplace health and safety (WHS) laws make [abbreviated name] responsible for meeting legislated standards to ensure the health, safety and welfare for the audit team when they are at your premises.

It is [abbreviated name]’s responsibility to:

* provide the audit team with suitable accommodation and appropriate WHS induction
* implement effective health and safety management systems to manage any hazards and risks
* ensure the audit team is aware of and complies with special personal protective equipment requirements
* appropriately brief the audit team and issue them with the necessary personal protective equipment and training in its proper use.

Further details are provided in the [Terms of Engagement](https://www.audit.nsw.gov.au/our-stakeholders).

## Matters covered elsewhere

Please read the AEP together with the standard [Terms of Engagement](https://www.audit.nsw.gov.au/our-stakeholders), which provides additional information on:

* the Auditor‑General’s responsibilities
* auditee resources
* engagement approach
* communication and reports
* submitting financial statements for audit
* materiality, risk and the inherent limitations of an audit
* provision of working papers
* representations
* access
* clearance meetings
* accommodation, facilities and staff amenity
* determination of fees for engagements.

## Publications

The Audit Office has the following useful publications on our website:

* [‘Annual Work Program 2019–20’](https://www.audit.nsw.gov.au/our-work/audit-program) explains how the Audit Office decides what to focus on and what we intend to cover in the next year. It also gives Parliament, the entities we audit and the broader community some certainty over future topics and the timing of our reports.
* ‘[Professional Update](https://www.audit.nsw.gov.au/our-work/resources)’ published quarterly to help auditees and our staff keep abreast of key accounting, auditing and legislative developments in the NSW public sector, including pronouncements by professional standard setters and changes in the regulatory environment. To subscribe or access previous editions please visit our website at: [https://www.audit.nsw.gov.au/our‑work/resources](https://www.audit.nsw.gov.au/our-work/resources).
* [‘Financial Reporting Issues and Developments’](https://www.audit.nsw.gov.au/our-stakeholders) for the NSW public sector detailing:
	+ - * current issues and financial reporting developments that may impact the audit
			* accounting standards and pronouncements issued during the year that may impact the financial statements and/or annual report
* [[‘Application of Current Treasury Pronouncements’](https://www.audit.nsw.gov.au/our-stakeholders) listing Treasury Policy Papers and Circulars in force and the government agencies they apply to].

APPENDIX ONE – AUDIT APPROACH FOR KEY BUSINESS AND ACCOUNTING PROCESSES

The table below details our observations on the business and accounting processes relevant to the financial statements and our planned audit approach.

|  |
| --- |
| Audit teams should include all business and accounting processes relevant to the audit of the financial statements in the table below. An example is provided for the purchasing and payables, payroll and related provisions and other year‑end reporting adjustments.The extent of information included is at the discretion of the EC.Some of the common business and accounting processes are listed in the table. This is not intended to be a complete list and audit teams should add/remove business and accounting processes that are relevant to the audit of the financial statements, based on materiality and risk assessment. |

| Business / accounting process | Observation of business / accounting process | Audit approach |
| --- | --- | --- |
| [Business / accounting process name] | [Provide a brief observation of the business / accounting process, including matters such as:* the accounting system used to process transactions
* management’s reliance on automated and manual controls
* prior year findings
* significant risks and changes identified during the current year.]
 | [Provide a brief overview of the audit approach, identifying the:* audit approach (e.g. full or partial controls reliance, fully substantive audit etc.) for the business / accounting process or specific types of transactions
* impact of prior year findings, significant risks or changes identified during the year on the audit approach.]
 |
| Purchasing and payables | [example only]The [abbreviated name] uses system X to initiate, process and record its purchasing transactions. Management relies on automated and IT‑dependent manual controls to ensure that all valid purchasing transactions are processed and accurately recorded in accordance with the [abbreviated name]’s policies.During last year’s audit, we identified:* instances whereby purchases were being processed without an approved purchase order. Management accepted the audit recommendation to review the current process and implement controls to ensure that all purchasing transactions are supported by an approved purchase order in accordance with the [abbreviated name]’s policies. No other control weaknesses were identified as part of our operating effectiveness testing
* that material year‑end accruals were not appropriately reviewed resulting in incorrect calculations and unaccrued invoices. Management accepted the audit recommendation to implement a review process for all year‑end accruals prior to posting to the GL.
 | [example only]We will evaluate the design and implementation of relevant controls with a plan to test their operating effectiveness. This will include assessing the controls management has implemented to ensure the [abbreviated name]’s policies are complied with in relation to purchases supported by an approved purchase order.To address our finding of inaccurate and incomplete year‑end accruals, we will increase our planned level of substantive procedures to ensure the balances are materially stated. |
| Payroll and related provisions | [example only]The [abbreviated name] uses system Y to initiate, process and record payroll transactions. Management relies on automated and IT‑dependent manual controls to ensure that all valid payroll transactions are processed and accurately recorded in accordance with the [abbreviated name]’s policies.During last year’s audit, we identified an instance where the staff member responsible for reviewing the audit log produced from system Y also has privileged access to the employee masterfile. This staff member is not in an administrator role for system Y. This control weakness existed for the full 201X–1Y financial year. Management accepted the audit recommendation to review the user access to system Y and ensure the access is commensurate with the role of the employee.The [abbreviated name] intends engaging an [actuary] to calculate their long service leave (LSL) liabilities at *XX* Month 20*XX*. | [example only]Our initial discussions with management highlighted that they had performed a user access review and restricted masterfile access to that of the administrator role of system Y. This was implemented in August 201X. As a result, there is a period of inappropriate segregation of duties during the year under audit.We will evaluate the design and implementation of relevant controls within the payroll process and assess the impact of the segregation of duties issues on our planned audit approach. We plan to perform a combination of controls and substantive procedures to provide assurance that the payroll balances are materially stated.We will review the work of the actuary, including assessing their qualifications and experience in calculating LSL liabilities. Our review will focus on the key inputs, judgements and assumptions used in the [actuary’s] calculations. |
| Revenue and receivables | [Insert details] | [Insert details] |
| Treasury (cash, investments and borrowings) | [Insert details] | [Insert details] |
| Inventory and cost of sales | [Insert details] | [Insert details] |
| Property, plant and equipment and depreciation | [Insert details] | [Insert details] |
| Intangibles and amortisation | [Insert details] | [Insert details] |
| Other year‑end reporting adjustments | [example only]The [abbreviated name] periodically updates their provision for legal claims.Management intends to seek the advice of their legal counsel to calculate the amount required to settle the obligation at *XX* Month 20*XX*. | [example only]We will review management’s calculation of the amount expected to settle the legal claim at *XX* Month 20*XX* and ensure the financial statement disclosures are appropriate. Our review will focus on the judgements and assumptions used in management’s calculations.We will communicate with [abbreviated name]’s legal counsel to confirm the reasonableness of management’s calculation of the amount expected to settle the legal claim. |
| [add name of additional business processes] | [Insert details] | [Insert details] |

## Involvement of Information Systems Audit specialists

|  |
| --- |
| Include the following if the audit strategy includes IS Audit. The audit team should consult IS Audit and include significant matters in the AEP, such as the coverage of application controls and general IT controls. |

This year, the audit team and the IS audit specialists will focus on:

* [list each application system].

APPENDIX TWO – FINANCIAL REPORTING DEVELOPMENTS

## New accounting standards

AASB 15 ‘Revenue from Contracts with Customers’

AASB 15 introduces a new five step‑model for recognising revenue based on the principle that revenue is recognised when control of a good or service transfers to a customer. AASB 15 may impact the timing and amount of revenue recorded in [NSW public sector entities’/universities’ and their subsidiaries’] financial statements, particularly for grant revenue. AASB 15 also increases the amount of disclosures required.

|  |
| --- |
| Select the appropriate option |

AASB 15 is effective for not‑for‑profit entities for financial years beginning on or after 1 January 2019. The [*abbreviated name*] will apply AASB 15 in its current year financial statements.

To effectively implement AASB 15, [abbreviated name] will need to have:

* reviewed its current contracts with customers
* ensured contracts registers are complete
* prepared for increased disclosures in the financial statements
* assessed whether existing systems can capture key information requirements of the new standard
* considered the impact on reporting to stakeholders regarding the [abbreviated name]’s financial position and performance
* provided proper guidance to audit and risk committees.

[Abbreviated name] will need to keep detailed working papers evidencing how it has complied with the requirements of AASB 15, such as working papers to support:

* key decisions and judgements made, for example whether contracts are in the scope of AASB 15, identification of performance obligations, determination and allocation of the transaction price, timing of revenue recognition
* financial statement disclosures.

|  |
| --- |
| Delete the paragraph below for universities and their controlled entities. |

NSW Treasury has released:

* [‘Guidance for AASB 15 Revenue from Contracts with Customers’](https://www.treasury.nsw.gov.au/sites/default/files/2017-12/Guidance%20for%20AASB%2015%20Revenue%20from%20contracts%20with%20customers.pdf) which provides an overview of the requirements of AASB 15 including disclosures and practical transitional impacts.
* [TC19‑07 ‘AASB 15 ‘Revenue from Contracts with customers’ and AASB 1058 ‘Income of Not‑for‑profit’ Entities Transition Elections’](https://www.treasury.nsw.gov.au/sites/default/files/2019-06/TC19-07%20Revenue%20AASB%2015%20AASB%201058%20.pdf) which prescribes the options that NSW public sector entities are to elect when applying AASB 15 and AASB 1059.

AASB 1058 ‘Income of Not‑for‑Profit Entities’

AASB 1058 provides guidance to help not‑for‑profit entities account for transactions conducted on non‑commercial terms and the receipt of volunteer services. AASB 1058 may significantly impact the timing and amount of income recorded in [not‑for‑profit NSW public sector entities/universities and their not‑for‑profit subsidiaries] agencies’ financial statements, particularly for grant income.

AASB 1058 is effective for not‑for‑profit entities for financial years beginning on or after 1 January 2019. The [*abbreviated name*] will apply AASB 1058 in its current year financial statements.

The [*abbreviated name*] will need to consider AASB 1058 in conjunction with AASB 15 to determine how to record transactions.

To determine the applicable standard, [abbreviated name] will need to have:

* determined the fair value of assets provided to [abbreviated name], on non‑commercial terms (at significantly less than their fair value)
* reviewed existing and new grant agreements
* assessed whether existing systems can capture key information requirements of the new standard
* considered the impact on reporting to stakeholders regarding the [abbreviated name]’s financial position and performance
* provided proper guidance to audit and risk committees.

[Abbreviated name] will need to keep detailed working papers evidencing how it has complied with the requirements of AASB 1058, such as working papers to support:

* key decisions and judgements made, for example which standard each revenue stream should be recognised under, whether grant agreements have sufficiently specific performance obligations, the fair value of assets received on non‑commercial terms, fair value of volunteer services
* financial statement disclosures.

|  |
| --- |
| Delete the paragraph below for universities and their controlled entities. |

NSW Treasury has released:

* [‘Guidance for AASB 1058 Income of not‑for‑profit entities’](https://www.treasury.nsw.gov.au/sites/default/files/2017-12/Guidance%20for%20AASB%201058%20Income%20of%20Not-for-profit%20entities.pdf) which provides an overview of the requirements of AASB 1058 including disclosures and practical transitional impacts.
* [TC19‑07 ‘AASB 15 ‘Revenue from Contracts with customers’ and AASB 1058 ‘Income of Not‑for‑profit’ Entities Transition Elections’](https://www.treasury.nsw.gov.au/sites/default/files/2019-06/TC19-07%20Revenue%20AASB%2015%20AASB%201058%20.pdf) which prescribes the options that NSW public sector entities are to elect when applying AASB 15 and AASB 1059.

AASB 16 ‘Leases’

AASB 16 changes the way lessees treat operating leases for financial reporting. With a few exceptions, operating leases will now be recorded in the Statement of Financial Position as a right of use (ROU) asset, with a corresponding liability. AASB 16 will result in more assets and liabilities being recorded in the Statement of Financial Position and change the timing and pattern of expenses recorded in the Statement of Comprehensive Income.

|  |
| --- |
| Select the appropriate option |

AASB 16 is effective for financial years beginning on or after 1 January 2019. The [*abbreviated name*] will apply AASB 16 in its current year financial statements.

To effectively implement AASB 16, [abbreviated name] will need to have:

* reviewed its current lease agreements
* ensured lease registers/databases are complete
* assessed whether existing systems can capture key information requirements of the new standard
* considered the impact on reporting to stakeholders regarding the [abbreviated name]’s financial position and performance
* provided proper guidance to audit and risk committees.

[Abbreviated name] will need to keep detailed working papers evidencing how it has complied with the requirements of AASB 16, such as working papers to support:

* key decisions and judgements made, for example whether contracts contain a lease, its assessment of whether the [*abbreviated name*] is reasonably certain to exercise lease options, discount rate, fair value of peppercorn leases
* financial statement disclosures.

|  |
| --- |
| Delete the paragraph below for universities and their controlled entities. |

NSW Treasury has released:

* [‘Guidance for AASB 16 Leases’](https://www.treasury.nsw.gov.au/sites/default/files/2017-04/Guidance%20for%20AASB%2016%20Leases%20-%20New%20Lease%20Standards.pdf) which provides a high‑level summary of AASB 16 including the practical transitional impacts and practical expedients.
* [TC18‑05 ‘AASB 16 Leases Transition Elections’](https://www.treasury.nsw.gov.au/sites/default/files/2018-06/TC18-05%20AASB%2016%20Leases%20-%20Transition%20Elections%20-%202pdf_0.pdf) which prescribes the options that NSW public sector entities are to elect when applying AASB 16.

AASB 1059 ‘Service Concession Arrangements: Grantors’

AASB 1059 provides guidance for public sector entities (grantors) who enter into service concession arrangements with private sector operators for the delivery of public services.

An arrangement within the scope of AASB 1059 typically involves a private sector operator designing, constructing or upgrading assets used to provide public services, and operating and maintaining those assets for a specified period of time (e.g. roads, prisons, hospitals and energy suppliers). In return, the private sector operator is compensated by the public‑sector entity.

AASB 1059 may result in [NSW public sector entities/universities] recognising more service concession assets (SCAs) and liabilities in their financial statements. SCA and liabilities of service concession arrangements will be recognised earlier (when construction of the asset commences, rather than at its completion).

AASB 1059 is effective for [NSW public sector entities for the 2020–21 financial year/universities and their subsidiaries for the year ending 31 December 2020]. The AASB deferred the effective date of AASB 1059 from 1 January 2019 to 1 January 2020 to assist stakeholders with their implementation efforts.

To prepare for the changes, [abbreviated name] will need to:

* assess the terms and conditions of existing arrangements with private sector operators to assess whether they fall within the scope of AASB 1059 and meet the criteria for recognition as a SCA or whether they are a leasing or outsourcing arrangement
* develop an implementation plan to apply AASB 1059 if an arrangement falls within the scope of AASB 1059
* consider the impact on reporting to stakeholders regarding the [abbreviated name]’s financial position and performance
* ensure proper guidance is provided to audit and risk committees.

[Abbreviated name] will need to keep detailed working papers evidencing how it has complied with the requirements of AASB 1059, such as working papers to support:

* key decisions and judgements made, for example whether the arrangement falls within the scope of AASB 1059, the fair value of the SCA at the inception of the arrangement, determining the asset and service components of the arrangement, pattern of revenue recognition under the grant of a right to the operator model
* financial statement disclosures.

|  |
| --- |
| Delete the paragraph below for universities and their controlled entities. |

NSW Treasury will issue a Policy and Guidelines Paper to replace TPP 06‑8 ‘Accounting for Privately Financed Projects’ in due course which will include guidance on recognition, measurement, disclosures and determining the appropriate transitional accounting.

APPENDIX THREE – RECENTLY TABLED AUDITOR‑GENERAL’S REPORTS TO PARLIAMENT

Each year the Auditor‑General produces Financial Audit, Performance Audit and Special Reports to Parliament. Recently tabled Reports which may be relevant to [abbreviated name] include:

|  |
| --- |
| Include a summary of recently tabled Auditor‑General’s Reports relevant to the auditee. An example has been included below. |

| Name | Issued | Overview |
| --- | --- | --- |
| Financial audit |
| [Universities 2018 audits] | [31 May 2019] | [This report focuses on our observations on the common issues identified in our audits of the financial statements of the ten NSW universities and their controlled entities in 2018.] |
| [Internal Controls and Governance] | [30 October 2018] | [This report focuses on the governance and internal controls of NSW Government agencies. However, the matters covered in this report are relevant to all public‑sector entities. The report covered common internal control issues at the State’s top 40 agencies and the Auditor‑General’s recommendations to improve policies, practices and procedures.] |
| Performance audit |
| [Property Asset Utilisation] | [18 December 2018] | [This audit assessed whether Property NSW is effective in the management of NSW Government owned and leased commercial office property. To do this, we assessed whether NSW Government leased commercial office space is being effectively utilised and whether the Government Property Register, a register of all government owned property, is accurate and up‑to‑date.] |
| Special reports |
| [Procurement and reporting of consultancy services] | [4 September 2018] | [This report examined how 12 agencies complied with their procurement and reporting obligations for consultancy services between 1 July 2016 and 31 March 2018. It assessed:* agency compliance with relevant procurement requirements for their use of consultants
* agency compliance with disclosure requirements about consultancy expenditure in their annual reports
* the effectiveness of the NSW Procurement Board in fulfilling its functions to oversee and support agency procurement of consultancy services.]
 |

A full list of our tabled Reports is available on the Audit Office [website](https://www.audit.nsw.gov.au/our-work/reports?progress_id%5B17%5D=17).



1. **‘Final version’ of the other information (Annual Report) is that approved by those charged with governance (paragraphs 13(b) and A15 of ASA 720).** [↑](#footnote-ref-1)
2. **Include this wording if those charged with governance will be asked to provide a representation letter. Refer to the** [Representation Letter](http://alfie/Audit-and-Assurance/Financial-Audit/Departments/Audit-GPFS---Conclude---Report/Representation-Letter) **template for details on when these representations are required.** [↑](#footnote-ref-2)
3. **Delete this heading if no other engagements have been included above.** [↑](#footnote-ref-3)
4. **Delete this sentence if specific engagements have been included in this section.** [↑](#footnote-ref-4)