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| Engagement Letter – Australian Financial Services Licence | |
| Application | |
| Type of audit and assurance work: | Type of entities: |
| * These instructions apply to Australian Financial Services (AFS) licence assurance engagements. | * auditees that hold an AFS licence. |
| Instructions  The Engagement Controller (EC) should:   * tailor and issue this engagement letter to auditees that require an audit and review of compliance with the terms of an AFS licence * consider the Audit Office’s reporting responsibilities to those charged with governance * assess whether an [Acknowledgement of Terms](#Acknowledgement_of_Terms) needs to be signed * consider other potential reporting responsibilities required by section 990K of the [Corporations Act 2001](https://www.legislation.gov.au/Details/C2022C00043) (Corps Act) (auditors must report certain matters to ASIC within seven days of becoming aware of the matter) * issue a revised letter if there is a change in the nature or terms of the engagement change and the proposed change is justified and permissible under AFS licensees provisions within the Corps Act * refer to the relevant Auditing Standards (e.g. [ASA 210](https://auasb.gov.au/standards-guidance/auasb-standards/australian-auditing-standards/), [ASAE 3000](https://auasb.gov.au/standards-guidance/auasb-standards/standards-on-assurance-engagements-asaes/), [ASAE 3100](https://auasb.gov.au/standards-guidance/auasb-standards/standards-on-assurance-engagements-asaes/), [ASAE 3150](https://auasb.gov.au/standards-guidance/auasb-standards/standards-on-assurance-engagements-asaes/), [ASAE 3450](https://auasb.gov.au/standards-guidance/auasb-standards/standards-on-assurance-engagements-asaes/), [APES 305](http://www.apesb.org.au/page.php?id=12)). * refer to the [ASIC website](https://asic.gov.au/for-finance-professionals/afs-licensees/changing-details-and-lodging-afs-forms/afs-licensees-lodging-annual-accounts-and-audit-report-using-forms-fs70-and-fs71/) for information on the AFS Licence and for Forms FS 70 and FS 71. | |
| Additional instructions for Audit Service Providers (ASPs)  This engagement letter needs to be signed and issued in electronic format by the EC, not the ASP partner or staff. Before sending the engagement letter to the EC to review, sign and issue, the ASP should perform the actions listed above.  The ASP should prepare a revised engagement letter for the EC to reissue if there is a change in nature or terms of the engagement, and the change is justified and permissible under AFS licensees provisions within the Corps Act. | |
| Issuing and signing  The engagement letter is generally addressed to the Chief Executive / Chair / Managing Director and relevant persons charged with governance. Where practical, the EC and relevant team members should formally present the engagement letter to the Audit and Risk Committee (ARC) for auditees that have an ARC and / or Board of Directors. If meetings with these bodies are not planned for some time, the EC may consider discussing the engagement letter with the ARC Chair and Chief Executive / Chair / Managing Director 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, for example:   + the inclusion / exclusion of systems within the scope of the audit   + the auditee’s functions or structure has significantly changed * there is a change in the key personnel of the engagement, such as the auditee's accountable authority, an ARC member or the EC etc. | |
| Additional instructions for ASPs  The ASP and where practical the EC, should present the engagement letter to the ARC (for auditees that have an ARC) and / or Board of Directors. If meetings with these bodies are not planned for some time, the EC may request the ASP to discuss the engagement letter with the ARC Chair and Chief Executive / Chair / Managing Director prior to the meeting. | |
| Objective  This template gives the general content/format of the engagement letter for the audit and review of an AFS licensee, in accordance with:   * ASA 210 ‘Agreeing the Terms of Audit Engagements’ * APES 305 ‘Terms of Engagement’ * ASAE 3000 ‘Assurance Engagements other than Audits or Reviews of Historical Information’ * ASAE 3100 ‘Compliance Engagements’ * ASAE 3150 ‘Assurance Engagements on Controls’ * ASAE 3450 ‘Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information’ * [GS 003](https://auasb.gov.au/standards-guidance/guidance-statements/) ‘Assurance Relating to Australian Financial Services Licenses issued under the Corporations Act 2001’.   Documentation  File a signed copy the engagement letter 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 ASPs  File a signed copy of the engagement letter and the auditee’s Acknowledgement of Terms (where applicable) in the audit file. | |
| Background  Assurance engagements concerning an AFS licensee’s Profit and Loss Statement (or equivalent) and Balance Sheet (ASIC Form FS70), are separate assurance engagements from the audit of the auditee’s general purpose financial statements.  AFS licensee engagements are unique in nature as they combine review and audit procedures. For this reason, EC’s must issue a separate engagement letter, rather than relying on the Annual Engagement Plan for the audit of financial statements. | |

[Name]  
[Chief Executive / Chair / Managing Director]  
[Licensee name]  
[Auditee’s Address]

Contact:

Phone no: [02 9275 XXXX]

Our ref: [D*XXXXXXX*/*XXXX*]

[date]

Dear [Mr / Mrs / Ms]

Engagement Letter – Australian Financial Services Licence

Assurance Engagement for the year ending [date]

[Licensee name]

Attached is the Engagement Letter for the assurance engagement on [Licensee name]’s (the Licensee) Australian Financial Services Licence (AFSL) for the year ending [date].

This letter sets out in general terms, the Audit Office’s understanding of the terms and objectives of the engagement as auditors of the AFSL of the Licensee pursuant to section 989B(3) of the *Corporations Act 2001* (the Corps Act) for the year ending [date]. You will find the standard Terms of Engagement on the Audit Office website at <https://www.audit.nsw.gov.au/our-stakeholders/state-entities>

If you would like to discuss the Engagement Letter, please call me on [phone number] or [Audit Leader’s Name] on [phone number].

|  |
| --- |
| 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](#Acknowledgement_of_Terms)’.]

Yours sincerely

[Name]  
Director, Financial Audit

## [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, for example:   + the inclusion / exclusion of systems within the scope of the audit   + the auditee’s functions or structure has significantly changed * engagements where the key personnel (auditee's accountable authority, ARC or the EC) have changed.   Audit teams should discuss with their AA-G in the first instance if the auditee does not or refuses to acknowledge the terms of the engagement where the above conditions are present. The Quality and Innovation Group may also be contacted for further guidance. |

ACKNOWLEDGEMENT OF TERMS

## Australian Financial Services Licence Assurance Engagement for the year ending [date]

I confirm the information in the Engagement Letter – Australian Financial Services Licence, Annual Engagement Plan and Terms of Engagement accords with my understanding of the arrangements for the audit [and review][[1]](#footnote-1) of [Licensee name]’s Form FS70 for the year ending [date].

I acknowledge and accept [Directors’ / management’s / those charged with governance’s] responsibilities as outlined in the documents on behalf of [Licensee name]:

Signed: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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

Purchase order number: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Engagement Letter

[Licensee name]

Australian Financial Services Licence Assurance Engagement

for the year ending [date]

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

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1. SCOPE

Section 989B(3) of the Corporations Act 2001 (the Corps Act) requires an Australian Financial Services Licence (AFSL) holder (Licensee) to lodge an auditor’s assurance report on the licensee, together with a profit and loss statement and balance sheet (audited financial statements), with the Australian Securities and Investment Commission (ASIC).

The Corps Act, Corporations Regulations 2001, ASIC regulatory documents and ASIC Legislative Instruments determine the scope of the assurance report. Reference to the assurance report is also made in the conditions of the AFSL. The required format of the assurance report is set out in ASIC Form FS71 ‘Auditor’s Report for AFS Licensee’ (Form FS71).

Our assurance report will be in a form consistent with the requirements of Form FS71 which requires:

* an auditor’s report on the financial statements in order to meet the Licensee’s obligation to lodge the report with ASIC in accordance with section 989B(3) of the Corps Act
* reasonable assurance on compliance with specified provisions of Part 7.8 of the Corps Act (being Divisions 2 to 7, except for section 991A, relating to dealing with client money, property and insurance)
* reasonable assurance on compliance with sections 981B and 982B of the Corps Act (relating to the control and operation of trust accounts)
* reasonable assurance that all necessary records, information and explanations for the purpose of the assurance report were received
* [a combination of reasonable and limited assurance on compliance with the AFSL’s conditions relating to financial requirements as prescribed by ASIC in regulations and legislative instruments[[2]](#footnote-2)]
* a statement that during the performance of our duties as auditors of the Licensee we have not become aware of any matters referred to in section 990K(2) of the Corps Act during or since the end of the financial year, that we have not previously reported to ASIC.

The scope of our engagement does not include, nor provide assurance about:

* the future viability of the Licensee
* whether it has carried out its activities effectively, efficiently and economically
* the overall effectiveness of its internal controls
* whether the Licensee has complied with requirements of the Corps Act (other than those specified above)
* the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
* any other information which may have been hyperlinked to/from the financial statements.

1. RESPONSIBILITIES

## Auditor’s Responsibilities

The Government Sector Audit Act 1983 requires the Auditor‑General for New South Wales to audit the financial statements of the Licensee with the objective of expressing an opinion on the financial statements. As auditor of the financial statements, the Auditor‑General is also engaged to issue a Form FS71 where the Licensee holds an AFSL.

Form FS71 includes a [combination of] 2 reasonable assurance opinions [and limited assurance conclusions]2 on the Licensee’s compliance with AFSL conditions relating to financial requirements as prescribed by ASIC.

Where we need to obtain reasonable assurance in relation to the matters in Form FS71, our procedures will be conducted in accordance with Australian Auditing Standards and will include such tests and procedures we consider necessary in the circumstances. Procedures will involve examining the internal controls used by the Licensee to comply with the financial requirements of the AFSL, the specific provisions of Part 7.8 and the control and operation of each account maintained for section 981B or section 982B of the Corps Act.

[Where we need to obtain limited assurance in relation to the matters in Form FS71, our limited assurance procedures are conducted in accordance with Standards on Assurance Engagements. Limited assurance procedures consist primarily of enquiry about the operation of the procedures and internal control of the financial risk management system, and comparison and other analytical review procedures we consider necessary.

A limited assurance engagement is not a reasonable assurance engagement. Procedures performed in a limited assurance engagement vary in nature and timing from, and are less extensive than those undertaken in, a reasonable assurance engagement. Consequently, the level of assurance obtained is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. A reasonable assurance opinion will not be expressed on the projections as we will only obtain limited assurance on this aspect of the engagement.] 2

## Inherent limitations

Internal controls

Because of the inherent limitations of any internal control structure, it is possible that fraud, error or non‑compliance with laws and regulations may occur and not be detected. We do not audit the overall internal control structure (including procedures that do not relate to the financial requirements) and no opinion will be expressed as to its effectiveness. A reasonable assurance engagement is not designed to detect all weaknesses in control procedures or all instances of non–compliance with part 7.8 of the Corps Act. This is because it is not performed continuously throughout the period and tests are performed on a sample basis having regard to the nature and size of the Licensee. Also, projections of any evaluation of the control procedures to future periods are subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

[Projections

The projections prepared by [management / those charged with governance] in accordance with the cash needs requirement conditions of the AFSL are based on achieving certain economic, operating and developmental assumptions about future events and actions yet to occur, and which may not necessarily occur. Considerable subjective judgement is involved in preparing projections. Actual results may vary materially from those projections and the variation may be materially positive or negative. Accordingly, our engagement will not confirm or guarantee the achievement of the projections, as future events, by their nature, are not capable of independent substantiation]. 2

## Auditor’s obligation to report matters to ASIC

In accordance with section 990K of the Corps Act, if during the course of, or in relation to this assurance engagement, we become aware of a matter referred to in section 990K(2) of the Corps Act, we are required to lodge a written report to ASIC within 7 days.

## Licensee’s Responsibilities

The [insert title of Those Charged with Governance] of the Licensee are responsible for:

* establishing and maintaining effective internal control procedures in relation to compliance with the requirements of Part 7.8 of the Corps Act, the conditions of the AFSL and provisions of the financial services laws. These duties are imposed on the Licensee by the Corps Act and the AFSL
* complying with the requirements of the Corps Act and conditions of the AFSL.

Management is responsible for:

* providing us with:
  + - * access to all information that is relevant to the engagement
      * additional information we may request for this engagement
      * written confirmation of representations made in connection with the engagement. Where appropriate we may also request written representations from those charged with governance)
      * unrestricted access to relevant individuals from whom we determine are necessary to obtain audit evidence
* ensuring the system(s) used to support the ASIC Form FS70 ‘Australian financial services licensee profit and loss statement and balance sheet’ are robust and capable of providing adequate information and records for the purpose of the engagement
* interpreting and understanding the requirements and conditions of the AFSL and, if required, clarifying its understanding of the requirements or conditions with ASIC.

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| When no risks or issues are identified delete the section below. |

1. KEY ISSUES

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| When completing the table below consider:   * the risk of non‑compliance with the Corps Act due to fraud (paras 33 and 41 of ASAE 3100) * matters noted when understanding the entity and its environment * repeat findings * significant matters. |

The table below details our assessment of the Licensee’s issues and risks that may impact this year’s assurance engagement and how we 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 Licensee 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 |
| --- | --- | --- |
| Key audit issues and risks | | |
| [enter information here] | [enter information here] | [enter information here] |
| [enter information here] | [enter information here] | [enter information here] |
| Other key issues and risks | | |
| [enter information here] | [enter information here] | [enter information here] |
| [enter information here] | [enter information here] | [enter information here] |

The significance of these issues and risks may change and new developments may emerge during the engagement. We will inform you of significant new matters as they arise and the likely impact on the engagement.

1. ENGAGEMENT COMMUNICATIONS

We will issue a Form FS71 assurance report upon completion of the engagement. The Form FS71 assurance report is prepared for the Licensee and ASIC as required by section 989B(3) of the Corps Act. The Audit Office will disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Licensee and ASIC, or for any purpose other than that for which it is prepared.

The following reports may also be issued to address matters arising from the engagement:

* Engagement Closing Report
* Management Letter (if required)
* other letters necessary to meet our reporting obligations to those charged with governance.

Section 5 of the standard [Terms of Engagement](https://www.audit.nsw.gov.au/our-stakeholders/state-entities) provides information about each of these reports.

1. ENGAGEMENT FEES

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| --- |
| Fee disclosures are detailed below and our standard charge out rates displayed on our website. Complete all fields in the table below. Fees for additional work / services performed needs to be explained. |

|  |
| --- |
| The total engagement fee needs to agree with Elite (entered via Matter Planning). |

|  | 202X | 202X | Increase/(decrease) | |
| --- | --- | --- | --- | --- |
|  | $ | $ | $ | % |
| Estimated engagement fee |  |  |  |  |
| [Fees for additional work / services] |  |  |  |  |
| Total engagement fee (excluding GST) |  |  |  |  |
| Total engagement hours |  |  |  |  |
| Average hourly rate |  |  |  |  |

The estimated engagement fee is based on estimated hours, the team structure, charge‑out rates, known changes in the Licensee’s operations and assurance requirements.

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

The fee may change if matters not known at the date of this letter, emerge during the engagement and significantly change the estimated engagement cost. Proposals for additional fees will be discussed with management.

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 performed 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 Licensee 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 of the estimated engagement fee.

1. ENGAGEMENT TEAM

## Engagement team

|  |
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| Select either alternative below as applicable to the engagement. |

The audit team and their contact details can be found in the Annual Engagement Plan.

[OR]

The proposed audit team for this engagement is:

|  |  |
| --- | --- |
| Engagement Controller: | [Name, Qualifications (optional)] |
|  | [Title] |
|  | 02 9275 [xxxx] |
|  | Email: |
|  |  |
| Engagement Manager: | [Name, Qualifications (optional)] |
|  | [Title] |
|  | 02 9275 [xxxx] |
|  | Email: |
|  |  |
| [where applicable] Audit Service Provider Engagement Partner: | [Name, Qualifications (optional)] |
|  | [Title] |
|  | 02 [xxxx xxxx] |
|  | Email: |
|  |  |
| [where applicable] Audit Service Provider Engagement Manager: | [Name, Qualifications (optional)] |
|  | [Title] |
|  | 02 [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**](https://auditnsw.sharepoint.com/SitePages/FAB%20-%20State%20government.aspx?csf=1&web=1&e=91w2mC#conduct)) * 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 ASPs  Include 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 sections 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 and Assurance Standards, and other relevant ethical requirements relating to the audit. In conducting the audit, should any contraventions to independence requirements arise, you will be notified of these on a timely basis.

1. REPORTING TO PARLIAMENT

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| Delete if not applicable for the engagement |

The Auditor‑General’s Report to Parliament may report matters identified during the engagement. Section 5 of the [Terms of Engagement](https://www.audit.nsw.gov.au/our-stakeholders/state-entities) provides details on the Auditor‑General’s Report to Parliament.

1. OTHER

## Matters covered elsewhere

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| Tailor the wording below as appropriate for the engagement. |

Please read this Engagement Letter together with the Annual Engagement Plan for the audit of the financial statements and the standard [Terms of Engagement](https://www.audit.nsw.gov.au/our-stakeholders/state-entities), 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.

1. Remove ‘review’ if the licensee is not subject to the financial requirements.

   Financial requirements apply to all licensees, except:

   * APRA regulated bodies which are not subject to section 912A(1)(d) of the Corps Act (refer RG 166.15 – RG 166.17) unless they are authorised to operate a registered investment schemes
   * entities subject to an alternative form of foreign prudential regulation – where ASIC is satisfied that the foreign prudential regulation appropriately addresses the licensee obligations for financial resources and risk management (refer RG 166.18 – RG 166.22)
   * market and clearing participants as the financial requirements of the relevant market or clearing and settlement facility are an adequate substitute (refer Appendix 1 of RG 166).

   [↑](#footnote-ref-1)
2. Remove this wording if the licensee is not subject to the financial requirements.

   Financial requirements apply to all licensees, except:

   * APRA regulated bodies which are not subject to section 912A(1)(d) of the Corps Act (refer RG 166.15 – RG 166.17) unless they are authorised to operate a registered investment schemes
   * entities subject to an alternative form of foreign prudential regulation – where ASIC is satisfied that the foreign prudential regulation appropriately addresses the licensee obligations for financial resources and risk management (refer RG 166.18 – RG 166.22)
   * market and clearing participants as the financial requirements of the relevant market or clearing and settlement facility are an adequate substitute (refer Appendix 1 of RG 166).

   [↑](#footnote-ref-2)