

Management Letter Template

Application

Types of audit and assurance work:

- These instructions apply to all financial statements audit engagements.

Type of entities:

- All entities.

Instructions

The Engagement Controller (EC) should:

- review, sign and issue a management letter for all engagements where there are matters to report
- tailor this template to suit the auditee and engagement
- agree the risk ratings with the Engagement Quality Reviewer (EQR) (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 (paragraph 18 of [ASA 260](#)).

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 Engagement Closing Report.

Additional instructions for Audit Service Providers (ASPs)

For all engagements where the ASP has identified matters to report, the ASP should 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 ASP should:

- tailor this template to suit the auditee and engagement
- agree the risk ratings with the EC or EQR (where applicable)
- discuss the form, timing and expected content of the management letter with auditee management and those charged with governance (paragraph 18 of [ASA 260](#)).

A management letter does not need to be issued if there are no matters to report. If no management letter will be issued, the ASP must state this in the Engagement Closing 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 state sector entities with a 30 June reporting date (those included in the Internal Controls and Governance volume)
- 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 Engagement Closing Report. If that is not possible, ECs must include extreme and high risk rated observations, together with management's draft responses, in the Engagement Closing 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 ASPs

The ASP should provide the draft management letter to the EC with sufficient time to allow the EC to achieve the timeframes stated above.

Recipients of Management Letters

Draft management letters should be sent to the key auditee management contact for comment. The EC (and ASP, if applicable) must exclude matters where there is suspicion that management has or is involved in fraudulent behaviour in relation to legislative, regulatory or contractual requirements.

Address management letters to the:

- Chair of the Board, and provide a copy to the Accountable Authority (AA) and Chair of the Audit and Risk Committee (ARC) / Audit, Risk and Improvement Committee (ARIC) where applicable
- AA (where there is no Board), and provide a copy to the Chair of the ARC (where appointed) and/or to other relevant officers
- General Manager (or Administrator) for local councils, and provide a copy to the Mayor and the Chair of the ARIC (where appointed)
- General Manager, and provide a copy to the Chair of the Governing body for county councils
- Executive Officer, and provide a copy to the Chair of the Board for Joint Organisations (JOs).

The EC must consult with the EQR (where applicable) and an Assistant Auditor-General before deciding whether to send a copy of the management letter to the relevant Minister (excluding councils and JOs).

Contents of Management Letters

Public sector audits ensure accountability, integrity and transparency in the management and use of public resources. The public sector auditor has additional statutory functions, including the ability to have regard to and report matters of public concern related to financial prudence, probity and waste. As such, where matters come to the attention of the audit team during their audit, the management letter should include (but not limited to):

- deficiencies in internal control, including but not limited to those related to business processes, information technology and security, governance, and the prevention and detection of fraud
- instances of actual or possible fraud, including fraud involving management non-compliance with laws and regulations, including:
 - intentional and material non-compliance involving management
 - legislative non-compliancewith a focus on laws and regulations key to the auditee's public and financial administration
- deficiencies in the auditee's delegations to support timely and effective decision making
- deficiencies in the processes/decision making around the use of public resources
- misstatements indicative of a deficiency in internal control
- audit matters of governance interest, including issues identified during the conduct of the audit that are not material to the financial statements but pose a heightened strategic, operational, or reputational risk to the auditee. An example of this is the risk of cyber incidents from internal and external actors and the preparedness of the entity to detect, prevent and respond to such incidences.
- 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, with consideration given to an escalation of the labelling, prominence, and risk rating of repeat issues
- 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, governing body, council or ARC / ARIC so all members of the board, governing body, council or ARC / ARIC are fully informed (paragraph A48 of [ASA 260](#))
- management's responses to these matters, if received in time
- an explanation of our concerns if the EC (or ASP) believes management's comments are incorrect or misleading.

Ratings of findings

Current year findings

ECs must ensure issues are included in the management letter in order of most significant to least significant, taking into account the EC's (and ASP's) assessment of the likelihood, consequence and risk against the risk matrix. Issues should not be risk rated solely on the financial consequence of the issue; but should consider how the issue impacts the auditee's business risks, including the effective operation of the auditee's governance and internal control frameworks, and their ability to achieve their objectives.

Prior year findings

ECs should review the prior year findings that have not been adequately addressed by management.

For those findings that have been addressed and resolved by management, it is appropriate to close the finding(s) and include in the Appendix with no further recommendation required.

For those findings that have not been addressed or adequately addressed (where further action is required), the EC should:

- transfer the finding to the body of the letter
- reassess the likelihood and consequence of the open matter and therefore the risk rating
- discuss all matters now rated as 'High' or 'Extreme' with the ECR (if appointed) or Assistant Auditor-General (if an EQR has not been appointed).

A finding that remains unresolved for three years or more may be an indicator of systemic issues, poor governance practices etc. and therefore the risk rating may need to be increased or consider whether there is a different governance finding on management's monitoring of the implementation of audit recommendations. This is because the longer the risk remains unresolved the greater the chance it could occur or be exploited. The rebuttable presumption is that the risk rating should increase for repeat findings that remain unaddressed for three periods. This will only apply to repeat findings with a rating of 'moderate' and above. This does not mean however that a large number of low risk findings are not relevant and should not be monitored. Professional judgement is required by the EC to determine whether it is appropriate to aggregate the low risk findings for escalation.

For example, if a finding of moderate, high or extreme risk was raised for the first time in the 30 June 2020 audit process and remained unaddressed at the conclusion of the 30 June 2023 audit, then the rebuttable presumption is that the risk rating should be increased as part of reporting on the 30 June 2023 audit. Where the EC rebuts this presumption (i.e. not to increase the risk rating), they must:

- consult with their ECR (if appointed) or an Assistant Auditor-General (AA-G) (if an ECR has not been appointed)
- ensure there is an appropriate rationale documented on the audit file.

The requirement for consultation with the ECR or AA-G is to ensure consistency in application to reassess the risk ratings for repeat findings. Consistent with the current branch practice of raising and discussing 'high and extreme' risks at Neighbourhood Leadership Team (NLT) meetings, ECs should consider discussing repeat findings with ratings of 'moderate or high' at these meetings.

If the audit has an assigned ECR and the ECR resides within a different Neighbourhood, ECs should first consult with the ECR before raising and discussing the repeat findings at their NLT meeting.

While not exhaustive, factors that can be considered when reassessing the risk and deciding whether to rebut this presumption include:

- the nature and rating of the finding in the prior year
- the number of years the finding has remained unaddressed and or unresolved
- management's attempts or progress in addressing and closing the finding.

Examples of approaches that can be taken include:

- several 'Low' rated findings unaddressed by management may be combined into one 'Moderate' or 'High' finding in the current year - the rating will be dependent on the number of findings in aggregate and number of years the finding has not been addressed by management
- one 'Moderate' rated finding unaddressed by management may result in a 'High' or 'Extreme' rating in the current year - this is dependent on the number of years the finding has not been addressed by management.

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 (TCWG). Various ASAs require the auditor to communicate certain matters to the appropriate level of management, or TCWG, on a 'timely basis' or 'as soon as practicable'. ECs should communicate these matters during the course of the engagement and in management letters.

Refer to [ASA 260](#) for guidance on distinguishing between management and TCWG.

Objective

Where the audit team has identified matters to report, this template helps them fulfil the requirements of ASA 260 'Communication with Those Charged with Governance' and ASA 265 '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 HPE CM z file container and the audit file.

Additional instructions for ASPs

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. Auditees may assess the quality and 'value for money' of the audit by the content, presentation and timeliness of the management letter.

[Contact Name]
[Addressee¹]
[Auditee Name]
[Auditee Address]

Contact:
Phone no:
Our ref:

Refer to the guidance above for who the addressee should be.

[date]

Dear [Mr / Mrs / Ms / Dr]

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 we identified during the current audit
- unresolved matters identified during previous audits
- matters we are required to communicate under Australian Auditing Standards.

We planned and carried out our audit to obtain reasonable assurance the financial statements are free from material misstatement. Because our 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 our attention.

Include the following sentence when issuing a planning or interim management letter or the final letter is issued before the opinion.

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

Include the appropriate sentence below for all audits except councils and JOs. 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.

¹ [ASA 260](#) includes guidance on how to identify the appropriate person(s) to communicate with.

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

Include the appropriate paragraph below. Tailor as required.

We 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 we have not received a response. To ensure matters identified during the audit are communicated to you promptly, we have issued the letter without management's responses.

Include the following paragraph only when:

- **sending the draft management letter to management for comment**
- **the auditee has not responded to the draft management letter.**

As soon as practicable, we 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.

I consider this Management Letter to fall within the definition of 'excluded information' contained in Schedule 2(2) of the *Government Information (Public Access) Act 2009*. It may not be distributed to persons other than Management and those you determine to be charged with governance of the [abbreviated entity].

The Auditor-General may include items listed in this letter in the Report to Parliament. We will send you a draft of this report and ask for your comments before it is tabled in Parliament².

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 / Audit Leader], Financial Audit [or relevant title]

Refer to the guidance above for who the letter should be copied to.

[cc: ARC / ARIC Chair / Mayor / Chair of the Governing body / Chair of the Board / other relevant Officer]

² Only include this second sentence if we intend on sending a draft of the A-G's Report to the auditee.

[Planning / Interim / Final] management letter

for the year ending / ended [*date*]

[*Name of Auditee*]

We 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 based on principles within the risk management framework in [TPP12-03](#) 'Risk Management Toolkit for the NSW Public Sector'.

Include the following paragraph for councils only.

This framework may be used as better practice for councils.

		CONSEQUENCE			
		Low	Medium	High	Very high
LIKELIHOOD	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, the principles within the consequence and likelihood tables, which are based on the principles within [TPP12-03](#) have been used to guide our assessment.

Consequence levels and descriptors

When assessing the consequence of each issue, we have regard to the length of time the issue remains unresolved. The lack of timeliness in resolving issues may indicate systemic issues and/or poor governance practices, which warrant an increase in the consequence level. As such, unresolved or unaddressed issues from prior periods are re-assessed annually. This re-assessment may lead to an increase in the risk rating adopted.

Consequence level	Consequence level description
Very high	<ul style="list-style-type: none"> Affects the ability of the 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 across a critical/significant part of the entity; or May result in an inability for the auditor to issue an audit opinion or issue an unqualified audit opinion, and/or significant management work arounds and substantive tests of details was required in order to issue an unqualified opinion.
High	<ul style="list-style-type: none"> Requires 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 across a significant/important part of the entity (eg. as demonstrated through a lack of timely resolution of unresolved/repeat issues); or May result in an inability for the auditor to issue an unqualified audit opinion, and/or significant management workarounds and substantive tests of details was required in order to issue an unqualified opinion.
Medium	<ul style="list-style-type: none"> Requires management effort from areas outside the business unit; or Arises from ineffective governance practices and/or internal controls affecting several parts or a key part of the entity (eg. as demonstrated through a lack of timely resolution of unresolved/repeat issues).
Low	<ul style="list-style-type: none"> Can be managed within normal management practices; or Arises from isolated ineffective governance practices and/or internal controls affecting a small part of the entity that are largely administrative in nature.

Likelihood levels and descriptors















When assessing the likelihood of each issue, we have regard to the length of time the issue remains unresolved because the longer the risk remains unresolved the greater the chance the weakness could be exploited, or an adverse event or events could occur. As such, unresolved or unaddressed issues from prior periods are re-assessed annually. This re-assessment may lead to an increase in the risk rating adopted.

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

Important: The consequence and likelihood of the risk occurring needs to be re-assessed for all repeat findings. Refer to 'Prior year findings' above in the instructions and guidance section of this template for further details.

Summary of issues

Hyperlink text under the 'detail' column to the issues.

Issue	Detail	Likelihood	Consequence	Risk assessment
Prior year matters not resolved by management³				
[Example]:				
1	[Title of issue]	Likely	Medium	 Moderate
2				 Extreme  High  Moderate  Low
[Example]:				
Current year matters				
1	[Title of issue]	Likely	Medium	 Moderate
2				 Extreme  High  Moderate  Low
3				 Extreme  High  Moderate  Low

Appendix⁴

[Review of matters raised in prior year management letters that are not yet due](#)

[Review of matters raised in prior year management letters that have been addressed](#)

³ The matter(s) raised last year need to be reassessed for likelihood and consequence.


⁴ The matter(s) to be included in the appendix are only those that have been addressed by management and closed off by the audit team.

Discuss the risk rating for each management letter item with management and those charged with governance. Where the entity’s risk management framework is used (if requested from entity or otherwise deemed more appropriate), the audit team must ensure they maintain documentation to reconcile the alternative framework 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. Delete these example tables before issuing to management.

Prior year matters not resolved by management

Issue 1: [*Title of issue*]

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

Observation

[Describe the source of the risk, including context and evidence to support the observation]

Auditee 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 entity.

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
- **if there are mitigating controls**].

Auditee X may be exposed to personnel concealing a theft or loss by recording a fraudulent asset disposal. Unauthorised disposals may impact on Auditee 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 Auditee X.

Recommendation

[Recommendations should be SMART:

- **Specific**
- **Measurable**
- **Attainable**
- **Realistic**
- **Time-bound**].

Auditee 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]

Auditee X will amend and update the asset disposal policy and procedures and include an appropriate approval process.





Person responsible:

Date (to be) actioned:

[Name of auditee personnel and role]

[Date]

Issue 2: *[Title of issue]*

Likelihood	Consequence	Systemic issue	Category	Risk assessment
				 Extreme
				 High
				 Moderate
				 Low

Observation

Implications

Recommendation

Management response

[Agree / Disagree]

[Insert response]


Person responsible: _____ **Date (to be) actioned:** _____

[Insert Name and role]

[Insert date]

Current year matters

Issue 1: [Title of issue]

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

Observation

[Describe the source of the risk, including context and evidence to support the observation]

Auditee 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 entity.]

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
- if there are mitigating controls].

Auditee X may be exposed to personnel concealing a theft or loss by recording a fraudulent asset disposal. Unauthorised disposals may impact on Auditee 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 Auditee X.

Recommendation

[Recommendations should be SMART:

- Specific
- Measurable
- Attainable
- Realistic
- Time-bound].

Auditee 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]

Auditee X will amend and update the asset disposal policy and procedures and include an appropriate approval process.





Person responsible:

Date (to be) actioned:

[Name of auditee personnel and role]

[Date]

Issue 2: *[Title of issue]*

Likelihood	Consequence	Systemic issue	Category	Risk assessment
				 Extreme
				 High
				 Moderate
				 Low

Observation

Implications

Recommendation

Management response

[Agree / Disagree]





[Insert response]

Person responsible: _____ **Date (to be) actioned:** _____

[Insert Name and role]

[Insert date]

Issue 3: *[Title of issue]*

Likelihood	Consequence	Systemic issue	Category	Risk assessment
				 Extreme
				 High
				 Moderate
				 Low

Observation

Implications

Recommendation

Management response

[Agree / Disagree]





[Insert response]

Person responsible: _____ **Date (to be) actioned:** _____

[Insert Name and role]

[Insert date]

Issue 4: *[Title of issue]*

Likelihood	Consequence	Systemic issue	Category	Risk assessment
				 Extreme
				 High
				 Moderate
				 Low

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 that are not yet due

The issues in this appendix were raised in previous management letters [[with a due date that had not passed] [or] [where our information system audit was completed before the action due date]].

Prior issues raised	Risk assessment	Assessment of action taken	Recommendation
[Example] Interim management letter for the year ended 30 June 2022			
[Example]			
Lack of centralised financial delegation	 Extreme  High  Moderate  Low	Revised action due date: June 2023 Management advised they will streamline their delegation process.	We will follow up this issue as part of the 2022–23 audit.

Review of matters raised in prior year management letters that have been addressed⁵

The issues in this appendix were raised in previous management letters. For each of these issues, we have determined how management has addressed the issue in the current year.

Prior issues raised	Risk assessment	Assessment of action taken	Recommendation
[Example]			
Approval of manual journals	 Extreme  High  Moderate  Low	Matter has been addressed by management.	Nil as matter addressed

⁵ Only include matters from the prior year where management has resolved the issue.