

# Terms of Engagement



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## 1. INTRODUCTION

The Terms of Engagement are designed to inform the Accountable Authority, Vice-Chancellor, Mayor/Administrator, Chairperson, General Manager or Executive Officer and others charged with governance of an auditee of the legislative requirements and other matters relevant to Audit Office engagements.

Signing the Acknowledgement of Terms issued with the Annual Engagement Plan (AEP) for the audit of the financial statements, or the engagement letter for engagements other than the audit of the financial statements, confirms acknowledgement of the Terms of Engagement.

## 2. THE AUDITOR-GENERAL'S RESPONSIBILITIES

### Powers and duties of the Auditor-General

The Auditor-General reports to the NSW Parliament and is responsible for audits and related services. These audits help Parliament hold government accountable for its use of public resources.

The Auditor-General's powers and duties are predominantly set out in the *Government Sector Audit Act 1983* (GSA Act), *Government Sector Finance Act 2018* (GSF Act)<sup>1</sup> and the *Local Government Act 1993* (LG Act). However, other acts may also confer powers and duties upon the Auditor-General. These acts include the *Corporations Act 2001* (Corps Act), *Charitable Fundraising Act 1991* (CF Act) and *Financial Services Reform Act 2001*.

The Auditor-General's functions under the GSA Act, include:

- auditing the Consolidated State Financial Statements and the financial statements of GSF agencies (agencies) with the objective of expressing an opinion on the financial statements
- providing audit and related services to the Parliament, the Treasurer and Ministers on request
- reporting to Parliament
- identifying waste of public resources, or lack of probity or financial prudence in the management or application of public resources
- conducting performance audits of agencies' activities
- conducting audits of agencies' compliance with laws and regulations
- performing anything incidental to the exercise of the Auditor-General's functions.

The Auditor-General's functions under the LG Act include:

- auditing local and county councils', joint organisations' (collectively, Local Government entities) and, where applicable, council entities' financial statements with the objective of expressing an opinion on the financial statements
- providing audit and related services to a Local Government entity at the request of the council, the Minister for Local Government or the Secretary of the Department of Planning, Industry and Environment (DPIE)
- reporting to Parliament
- conducting performance audits of the activities of Local Government entities and, where applicable, council entities
- conducting audits of Local Government entities' compliance with laws and regulations.

The scope and nature of the terms of the engagement of a public sector audit differ from those for an audit in the private sector. The differences make it difficult to directly compare services provided by private and public sector auditors.

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<sup>1</sup>The annual reporting provisions and financial reporting for Special Deposits Accounts are expected to commence on 1 July 2023 and apply to the 2022–23 financial year .

## Independence of the Auditor-General

Under the GSA Act, the Auditor-General may conduct assurance engagements in such a manner as the Auditor-General thinks fit and may report findings to Parliament. This permits the Auditor-General to conduct all engagements at arm's length and in the public interest.

The GSA Act sets stringent requirements for the appointment and removal of the Auditor-General. This gives Parliament confidence the Auditor-General will act independently.

The Auditor-General is only allowed to provide particular audit and related services under the:

- GSA Act at the request of Parliament, the Treasurer or a Minister
- LG Act at the request of a Local Government entity, Minister for Local Government or the Secretary of DPIE.

The legislative arrangements mean the Auditor-General and Audit Office staff are not influenced by factors such as personal reward, the desire to increase market share, the risk of existing engagements not being renewed and the desire to promote or benefit from providing non-assurance services. This helps ensure that audit work is planned, conducted and reported honestly and objectively.

In addition to the legislative safeguards, the Audit Office has other internal processes to strengthen independence, including policies that:

- require all staff to adhere to the Audit Office's independence requirements
- require senior audit staff to rotate periodically across assurance engagements
- preclude the Audit Office from providing consultancy and other advisory services
- require all staff to report and register all gifts and hospitality offered above \$25, irrespective of whether the gift or hospitality has been received or declined.

Professional ethical standards and legislation, such as the Corps Act, have specific restrictions on employment relationships between an audited entity and members of its current or previous audit teams. Please discuss the prospective employment of a current or former Audit Office staff member before initiating formal employment negotiations.

Where the Audit Office contracts out assurance engagements to private sector firms, it requires these firms to obtain the Auditor-General's approval to provide any other services to the auditee for the duration of the contract.

## Accountability in the public sector

Public sector entities are subject to a high degree of accountability, transparency and scrutiny by many stakeholders. In New South Wales, Audit Office stakeholders and auditees include:

- Parliament, representing the people of New South Wales
- the auditee (NSW Government entities, universities and Local Government entities)
- NSW citizens.

In addition to auditing financial statements, Parliament allows the Auditor-General to examine matters arising during engagements that involve wastage of public resources, and lack of probity or financial prudence in the management or application of public resources.

The Auditor-General's responsibility to Parliament, auditees and other stakeholders and the scope and depth of public sector audits, impose additional reporting requirements (i.e. the Auditor-General's Report to Parliament, the Statutory Audit Report<sup>2</sup> and the Report on the Conduct of the Audit<sup>3</sup>). [Section 5](#) provides further details about reports issued by the Audit Office.

The additional requirements of a public sector assurance engagement are complemented by the Audit Office's detailed knowledge of NSW public sector entities. This is particularly important due to the unique reporting requirements applicable to public sector entities (e.g. Treasurer's Directions for GSF agencies, Financial Statement Guidelines for Australian Higher Education Providers, the Local Government Code of Accounting Practice and Financial Reporting, Treasury / the Office of Local Government (OLG) within DPIE / Premier's Circulars and Memoranda, and applicable legislation).

## Public sector legislation

Public sector entities are subject to legislation regulating their activities as well as the laws, regulations and regulatory oversight common to both public and private sectors.

The audit team considers each auditee's compliance with its enabling legislation and the provisions of other acts and regulations that may materially impact the amounts and disclosures in its financial statements.

To facilitate the audit team's understanding of the legal and regulatory framework applicable to an auditee, they will seek to identify:

- acts and regulations applicable to the auditee
- the requirements of central agencies and regulators
- policies and procedures adopted to ensure compliance with applicable legislation and other requirements.

The Auditor-General may undertake a performance audit on an auditee's activities to determine if it is carrying out its activities economically, efficiently and effectively in accordance with relevant laws.

## Obligations under *the Corporations Act 2001* (where applicable)

The Corps Act imposes additional duties and reporting obligations on auditors, including the Auditor-General. For example, section 311 of the Corps Act requires the auditor to notify the Australian Securities and Investments Commission (ASIC) if:

- the auditor has reasonable grounds to suspect a significant contravention of the Corps Act has occurred
- they believe a contravention that is not significant will not be adequately dealt with in the Independent Auditor's Report or by bringing the matter to the attention of the company's directors.

## Obligations to report to oversight and regulatory bodies

The Auditor-General is obliged by law to report certain matters, specified in relevant legislation, that are identified during the audit, to regulators (such as the Australian Prudential Regulation Authority) and oversight bodies (such as the Independent Commission Against Corruption (ICAC) under section 11 of the *Independent Commission Against Corruption Act 1988*).

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<sup>2</sup> Only applies to entities audited under the GSA Act.

<sup>3</sup> Only applies to entities audited under the LG Act.

## Audits under the *Charitable Fundraising Act 1991* (where applicable)

The CF Act applies to entities that conduct charitable fundraising activities. A separate engagement letter will be issued to auditees that request assurance services to satisfy the conditions of a fundraising authority or who voluntarily choose to assert they have prepared the financial statements in accordance with the CF Act.

## Audits under the *Financial Services Reform Act 2001* (where applicable)

The *Financial Services Reform Act 2001*, administered by ASIC, requires financial service providers to hold an Australian Financial Services Licence (AFS Licence). The regulatory requirements for AFS licensees include an annual audit. The holder of an AFS Licence is obliged to lodge the AFS Licence Assurance Report with ASIC in accordance with section 989B(3) of the Corps Act.

Further details can be obtained from the ASIC website and the engagement letter issued for this type of engagement.

## 3. AUDITEE RESOURCES

### Publications

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

- [‘Annual Work 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’](#) 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>.
- [‘Financial Reporting Issues and Developments’](#) for the NSW [State Government](#) and [University](#) and [Local Government](#) sectors 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’](#) listing Treasurer’s Directions, Treasury Policy Papers and Circulars in force and the agencies they apply to.
- [‘Local government pronouncement guidance note’](#) listing key reporting pronouncements issued by OLG.

### Reports to Parliament

Each year, the Auditor-General reports directly to Parliament. Our Financial Audit, Performance Audit and Special reports highlight sector wide themes to assess performance and benchmark across the sectors. These reports provide insights to improve the financial reporting, internal controls and performance of NSW Government entities, universities and Local Government entities.

Financial Audit reports provide Parliament and NSW citizens with the results of our financial audits of State Government entities, universities and Local Government entities, including our observations, analysis, conclusions and recommendations. Additional financial audits are undertaken each year on the General Government and Consolidated State Financial Statements.

Performance Audit reports highlight the key findings from performance audits, our observations and recommendations on whether NSW Government entities, universities and Local Government entities are carrying out their activities effectively, and doing so economically and efficiently and in compliance with relevant laws.

Special reports seek to confirm that specific legislation, directions and regulations have been adhered to by NSW Government entities, universities and Local Government entities.

A full list of our tabled reports is available on the Audit Office [website](#).

## 4. ENGAGEMENT APPROACH

### Financial statement audits

Audit teams conduct engagements in accordance with applicable laws, regulations and standards, including:

- the GSA Act
- the GSF Act
- the LG Act
- the Corps Act
- the CF Act
- the *Australian Charities and Not-for-Profits Commission Act 2012*
- the *Financial Services Reform Act 2001*
- Treasurer's Directions
- OLG Guidelines
- Australian Auditing and Assurance Standards
- Accounting Professional and Ethical Standards.

Australian Auditing Standards require auditors to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance the financial statements are free from material misstatement. This involves performing procedures to obtain sufficient, appropriate audit evidence about the amounts and disclosures in the financial statements. The audit approach and procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit includes:

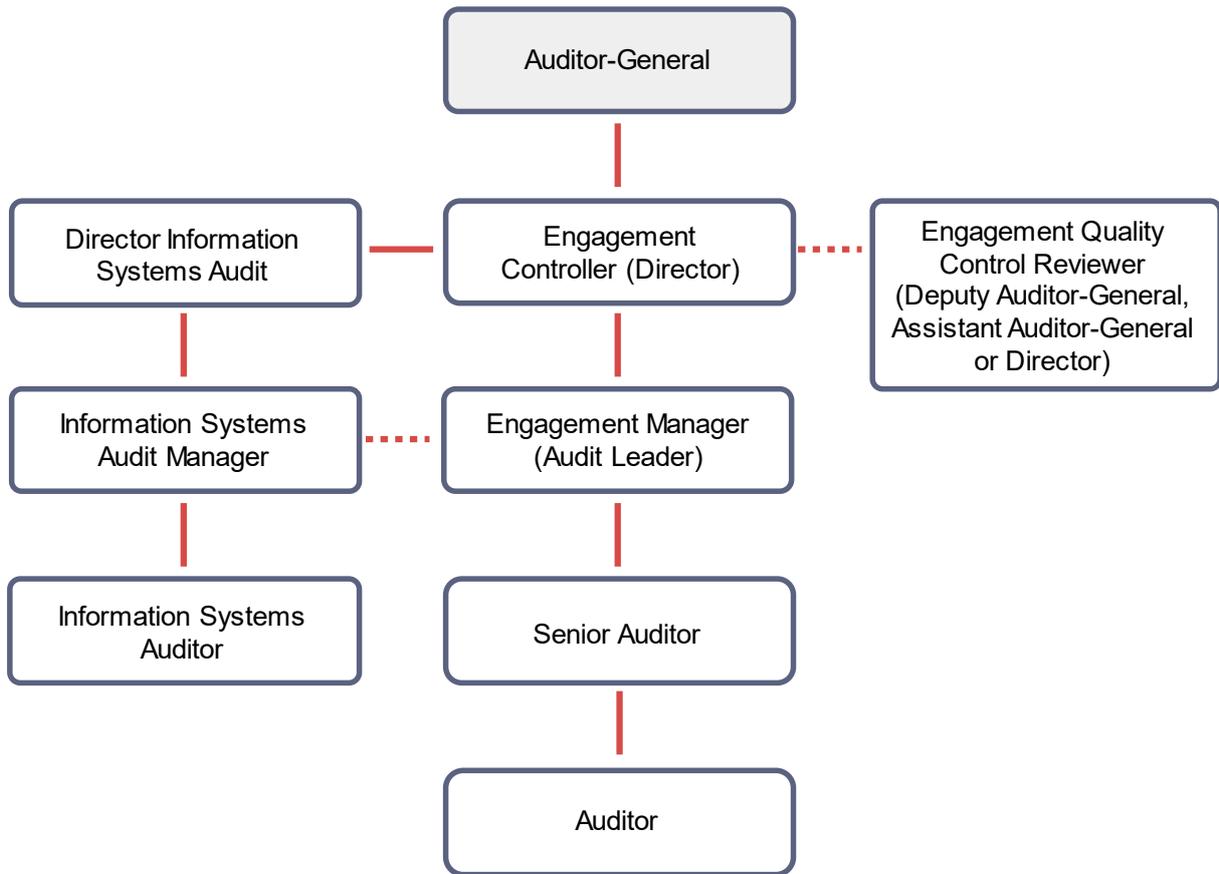
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- concluding on the appropriateness of management's use of the going concern basis of accounting
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the transactions and events are fairly presented in the financial statements.

### Delivering quality audit services

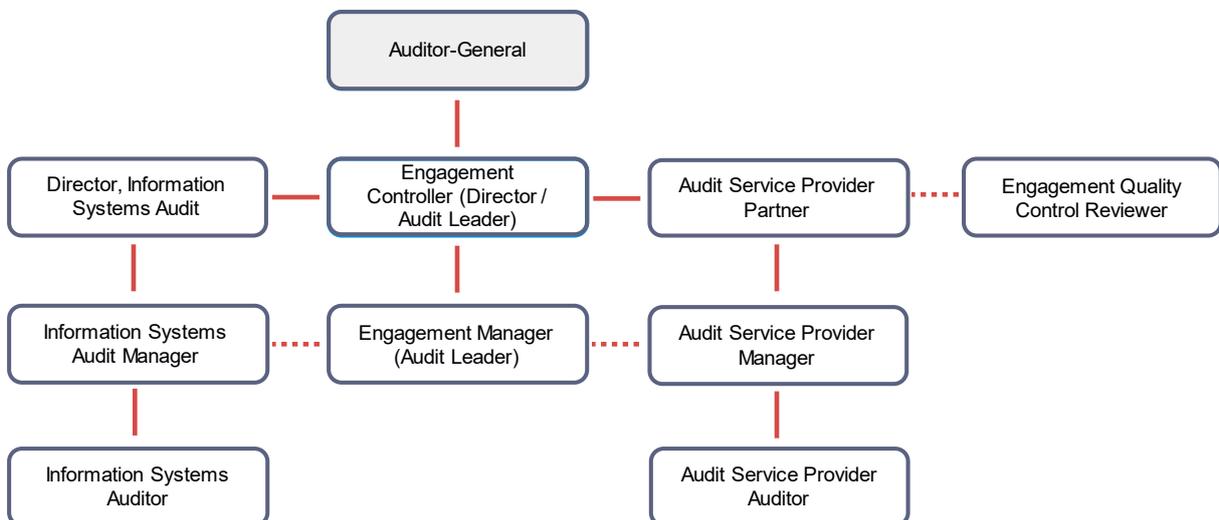
The Audit Office aims to provide high quality assurance services that comply with professional standards and provide development opportunities for staff. A copy of the Audit Office Guarantee of Service is available from the Audit Office [website](#).

To achieve high quality assurance services the Audit Office has developed an Audit Office Service Model for assurance engagements. The audit team is well supported by the Audit Office's quality processes. Further details on our quality assurance processes are available on the Audit Office [website](#).

**Audit Office Financial Audit Service Model<sup>4</sup>**



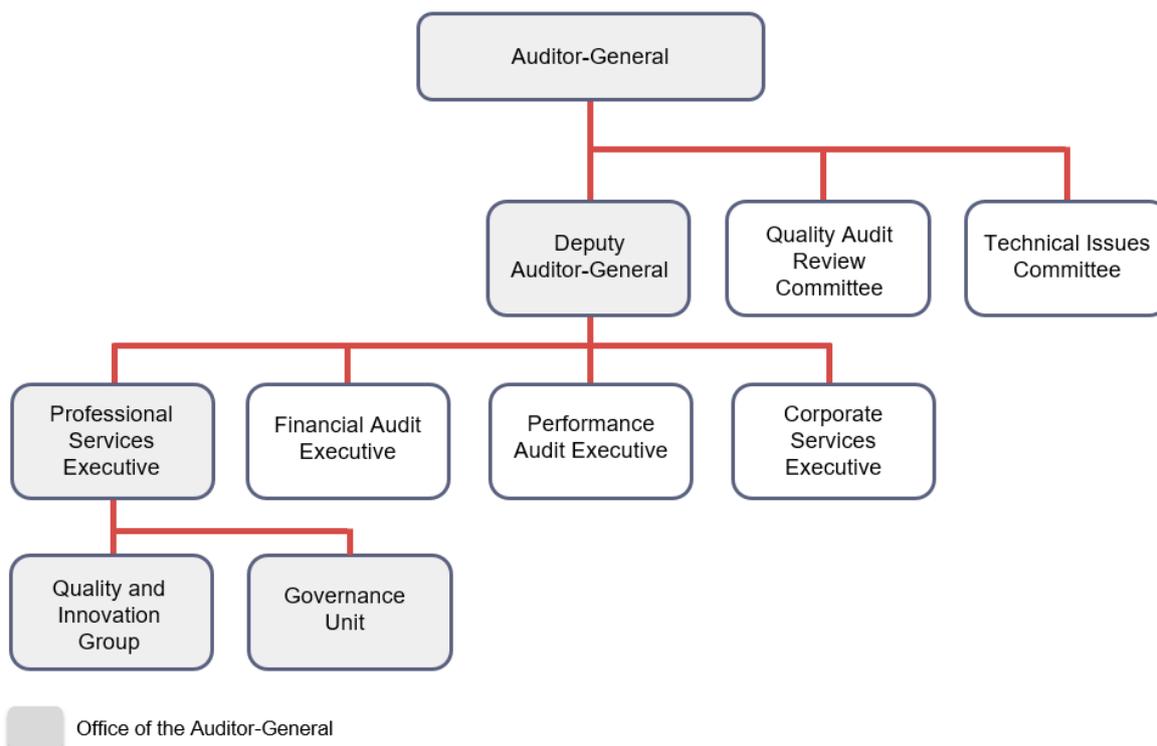
**Audit Office Financial Audit Service Model for Audit Service Providers<sup>5</sup>**



<sup>4</sup> This structure may change depending on the size and complexity of the audit.

<sup>5</sup> This structure may change depending on the size and complexity of the audit.

## Quality processes supporting the financial audit teams



Position	Role within the audit
<b>Audit Office Service Model (incorporating Audit Service Providers)</b>	
<b>Auditor-General</b>	<p>The Auditor-General is responsible for audits and related services. The Auditor-General delegates responsibility for the audit and signing the Independent Auditor’s Report to the Engagement Controller (EC), except in limited circumstances. For example:</p> <ul style="list-style-type: none"> <li>• where there has been an independence contravention</li> <li>• where legislation, Commonwealth/State or other agreements do not provide a power of delegation</li> <li>• the Auditor-General has determined to sign the Independent Auditor’s Report.</li> </ul>
<b>Engagement Controller (EC)</b>	<p>The EC is responsible for signing the Independent Auditor’s Report, the audit approach and execution, determining key risks and judgements, assigning resources to the engagement and monitoring their performance.</p>
<b>Engagement Quality Control Reviewer (EQCR)</b>	<p>Where appointed, the EQCR is responsible for the overall audit quality. They consult with ECs on key aspects of audits, such as risks, judgements and conclusions.</p> <p>The Deputy Auditor-General, an Assistant Auditor-General, or another Director can be appointed as an EQCR.</p>
<b>Engagement Manager (EM)</b>	<p>The EM supports and reports to the EC and is responsible for the day-to-day planning, coordination and execution of the audit.</p>

Position	Role within the audit
<b>Audit Service Provider (ASP) Partner</b>	The ASP Partner recommends the appropriate Independent Auditor’s Report to the EC. In consultation with the EC, the ASP Partner is responsible for the audit approach and execution, determining key risks and judgements, assigning resources to the engagement and monitoring their performance.
<b>ASP Manager</b>	The ASP Manager supports and reports to the ASP Partner and is responsible for the day-to-day planning, coordination and execution of the audit.
<b>Director, Information Systems (IS) Audit</b>	The Director, IS Audit directs the assessment and testing of the information system environment and the impact on key financial statement line items.
<b>Information Systems Audit Manager</b>	The Information Systems Audit Manager oversees procedures to assess and test the IT control environment, selected business control procedures and the use of appropriate computer assisted audit tools.
<b>Quality processes supporting the team</b>	
<b>Financial Audit Executive (FAE)</b>	The FAE comprises the Assistant Auditors-General in Financial Audit and they are responsible for overall quality of financial audit services. The FAE advises and consults with ECs on emerging issues, risks and developments, and ensures consistency and quality in the Audit Office’s assurance services across the New South Wales public sector.
<b>Executive Director, Professional Services (EDPS) Quality and Innovation Group (QIG)</b>	<p>The EDPS and QIG:</p> <ul style="list-style-type: none"> <li>• provide technical advice and support to audit teams, the FAE and the Technical Issues Committee on legislative, accounting, auditing and ethical matters</li> <li>• help the Quality Audit Review Committee discharge its quality assurance role.</li> </ul>
<b>Quality Audit Review Committee (QARC)</b>	<p>The QARC monitors the quality of assurance engagements and ensures compliance with ASCQ 1 ‘Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements’ and APES 320 ‘Quality Control for Firms’.</p> <p>The QARC reviews the quality of a range of audit and assurance engagements each year.</p>

Position	Role within the audit
<b>Technical Issues Committee (TIC)</b>	<p>The TIC consists of the Auditor-General, Deputy Auditor-General and an independent Assistant Auditor-General<sup>6</sup>, the Director responsible for auditing the Consolidated State Financial Statements, and an independent Director<sup>7</sup>. Although not part of the TIC, the attendees also include the EDPS (or their delegate) and the EC and Assistant Auditor-General sponsoring the technical issue. The TIC's role is to review and conclude on:</p> <ul style="list-style-type: none"> <li>• the appropriateness of the audit opinion / conclusion where:           <ul style="list-style-type: none"> <li>– there is a proposed modification to or removal of modification for the Independent Auditor's / Assurance Reports for all assurance engagements conducted by the Audit Office</li> <li>– Key Audit Matters have been included in the Independent Auditor's Report</li> </ul> </li> <li>• the accounting treatment for complex, contentious and significant technical issues</li> <li>• retrospective restatements under AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' (other than the first time adoption of an Accounting Standard) where a relevant precedent has not been previously established</li> <li>• differences of opinion between the audit team and auditee or within the audit team.</li> </ul>

## Sector Interest Groups and Discussion Groups

The Audit Office has established Sector Interest Groups and Discussion Groups to ensure there is a focused, Office-wide approach to key public sector clusters/industries. These groups comprise senior Audit Office staff across the Financial and Performance Audit Branches with similar auditee portfolios and are designed to improve communication and understanding of cluster/industry issues.

## Engagement team

The Audit Office is committed to ensuring continuity of audit staff on engagements, if practical and possible. However, the Audit Office (including its ASPs) must comply with ethical and legal obligations, which require regular rotation of key audit personnel. Lengthy service on audit engagements increases familiarity risks in financial statement audits, which may negatively impact audit quality.

Audit Office policies aim to provide high quality assurance services that comply with professional standards, maintain quality and provide development opportunities for staff. To achieve these outcomes, senior members of audit teams may not serve on engagements for more than five years without the Deputy Auditor-General's approval and more than seven years without the Auditor-General's approval. Junior staff may be rotated more frequently for their personal and professional development.

<sup>6</sup> The Assistant Auditor-General selected is neither the sponsoring Assistant Auditor-General or the EQCR on the engagement.

<sup>7</sup> Selected from a pool of four Directors (not being the EC who submitted the issue).

## Involvement of Information Systems Audit specialists

Information Systems (IS) audit specialists play an important role in the audit team. They provide assurance over the design, implementation and operating effectiveness of key financial systems and reports. Their work includes, but is not limited to, reviews of Information Technology General Controls (ITGCs) over:

- **Program Changes** – to ensure changes to programs and related infrastructure components are requested, authorised, performed, tested and implemented.
- **Access to Programs and Data** – to ensure only authorised users are granted access to programs and data.
- **Computer Operations** – to ensure financial transactions and data are processed and backed up without errors.
- **Program Development** – to ensure system development, data migration and implementation follow a formal IT change methodology.

By integrating ITGC work with financial audit procedures, audit teams are better equipped to assess the risks to the integrity over the key controls within the systems that produce the financial statements.

### Cyber security

As part of the financial audit, audit teams will also obtain an understanding of how management address the risk of cyber security incidents and respond to any incidences that may have occurred during the year, including its impact on the audit.

### Auditor's experts

Auditors are experts in accounting and audit matters, but they are not reasonably expected to be experts in any other field. When performing an audit there may be certain situations where the audit team requires the assistance of an expert in a field other than accounting or auditing (auditor's expert) to assist the audit team in obtaining sufficient appropriate audit evidence. For example, asset and actuarial valuations, interpretation of contracts and laws and analysis of complex tax issues.

The audit team will advise the auditee's management if an auditor's expert is engaged to assist in the audit of specific aspects of the financial statement.

### Relying on work performed by Internal Audit

The Audit Office recognises the important role internal audit plays in good governance practices of auditees and the valuable contributions they make to managing auditees' risks. The audit team will assess the auditee's internal audit function to understand its activities and determine its relevance to the audit. This assessment may impact the nature, timing and extent of the audit team's audit procedures. To preserve the independence of the Audit Office, the audit team will not 'directly instruct' internal auditors to perform audit procedures. The extent of the audit team's procedures cannot be reduced if:

- internal audit focuses on operational rather than financial statement risks
- the timing, nature or extent of internal audit procedures are not compatible with the financial audit timetable, assurance model or reporting requirements
- additional risks, identified by internal audit, need to be addressed by the audit team.

### Changes to the internal control environment and systems

Auditee management should advise the audit team of proposed, new or significantly changed systems and changes to their internal control environments. Such changes impact the scope, nature and or timing of audit procedures and may impact the audit fee.

## Review of the annual report

Australian Auditing Standards require the audit team to consider other information in the auditee's annual report and assess whether it is materially inconsistent with the audited financial statements, the knowledge obtained during the audit, or otherwise appears to be materially misstated. The audit team is obliged to report material misstatements in the other information in the Independent Auditor's Report. An 'Other Information' section will be included in the Independent Auditor's Report when the audit team obtains some or the entire final version of the other information at the date of the Independent Auditor's report.

To facilitate these obligations please provide the final draft annual report to the audit team before the Independent Auditor's Report is issued. Where this is not possible, please provide the draft annual report to the audit team as soon as it is available and before it is sent for publication.

## 5. COMMUNICATION AND REPORTS

### Communications to Those Charged with Governance

Under Australian Auditing Standards, 'those charged with governance' include persons responsible for the oversight of the strategic direction and accountability of the auditee. The auditor must determine the relevant persons charged with governance and communicate to them specific issues that come to their attention. However, the auditor is not required to design procedures for the specific purpose of identifying matters of governance interest.

The audit team will ensure these communications are open, candid and timely, but will depend on the nature and importance of the matter. Examples of matters the audit team may discuss with those charged with governance include:

- the auditee, its environment and particular risk whenever appropriate throughout the engagement
- instances of fraud, significant deficiencies in internal controls, material misstatements and major instances of non-compliance with laws and regulations when they come to the audit team's attention
- other findings that have been discussed at auditee briefings, in management letters and in engagement closing reports, including:
  - qualitative aspects of the auditee's accounting practices
  - difficulties encountered during the engagement
  - details of uncorrected misstatements (including those relating to prior periods)
  - other matters significant to the oversight of the financial reporting process, such as material misstatements of fact or material inconsistencies in information accompanying the audited financial statements that have been corrected.

The AEP lists those people charged with the governance of financial statement audits and the reports they will receive from the Audit Office.

### Controlled entities

The governing body of a parent entity oversees the governance of controlled entities. The audit team is required to communicate with group management and those charged with governance on certain matters as part of the audit of the group (i.e. the parent entity and its controlled entities).

Examples of matters the group audit team may discuss with group management include:

- deficiencies in:
  - group-wide internal control identified by the group audit team
  - controlled entities' internal control identified by the group audit team or brought to their attention by the controlled entities' auditor
- fraud identified by the group audit team or brought to their attention by the controlled entities' auditor.

In addition to the communications included in the section above, examples of matters the group audit team may discuss with those charged with governance of the group include:

- the type of work to be performed on the financial information of the controlled entities
- the nature of the group audit team's planned involvement in the work to be performed by the controlled entities' auditors on the financial information of significant controlled entities
- instances where the group audit team's evaluation of the work of a controlled entities' auditor gives rise to a concern about the quality of that auditor's work
- limitations on the group audit, for example, where the group audit team's access to information may have been restricted
- fraud or suspected fraud involving group management, controlled entities' management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial report.

Secrecy provisions in section 38 of the GSA Act and section 425 of the LG Act may prevent the audit team from communicating matters that are not covered above directly with the parent entity. Those charged with governance of the parent entity should seek the following reports from its controlled entities:

- AEPs detailing the plans for forthcoming audits, including significant items, timing and costs
- correspondence detailing audit observations on early close, or hard close procedures (where applicable)
- management letters detailing audit findings, internal control deficiencies and other matters of governance interest
- letters to those charged with governance detailing matters of governance interest arising from the audit
- Engagement Closing Reports issued before controlled entities sign the financial statements, detailing audit results
- Independent Auditor's Reports containing the audit opinion on the financial statements
- Statutory Audit Reports<sup>8</sup>, which formally report audit outcomes to the agency, the Minister and the Treasurer
- Auditor-General's Reports to Parliament, which may comment on the operations and audit outcomes of controlled entities.

## **Audit team interaction with management**

Regular and open communication between the audit team and management help deliver an efficient and effective engagement. The audit team will meet regularly with management and will direct most questions and documentation requests through management's nominated officer.

To facilitate an efficient and timely audit it is essential for management to respond promptly to the audit team's questions and documentation requests.

## **Independent Auditor's Report for a financial statement audit**

The Independent Auditor's Report expresses the auditor's opinion on the financial statements and is addressed to the:

- Members of Parliament (and Members of a Company, if applicable) for agencies
- Councillors or Administrators for councils
- Members of the governing body for county councils
- Board for joint organisations.

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<sup>8</sup> Applies to entities audited under the GSA Act.

The Independent Auditor's Report also advises users whether the financial statements comply with Australian Accounting Standards, the GSF Act / LG Act (and their regulations), as well as other applicable regulatory or legislative requirements.

Under the GSA Act the Audit Office aims to issue the Independent Auditor's Report within ten weeks of receiving the financial statements, provided the Auditor-General has received the signed statement by the Accountable Authority required by section 7.6(4) of the GSF Act and a signed representation letter. To promote timely finalisation of agency financial statements, the Audit Office is committed to ensuring the Independent Auditor's Report is issued within agreed timeframes.

The LG Act requires Local Government entities to send audited financial statements to OLG within four months of year end.

The *Annual Reports (Statutory Bodies) Act 1984*, *Annual Reports (Departments) Act 1985* (collectively known as Annual Reports Acts) and the LG Act require NSW Government entities, universities and Local Government entities to publish the Independent Auditor's Report with the financial statements in their annual report.

The scope of the audit on an auditee's financial statements does not include, nor provide assurance about:

- its future viability
- the effectiveness of its internal controls
- whether it has carried out its activities effectively, efficiently and economically
- the assumptions used in formulating budget figures disclosed in the financial statements
- the security and controls over the electronic publication of the audited financial statements on any website where they are presented
- information hyperlinked to/from the financial statements.

### **Statutory Audit Report for a financial statement audit<sup>9</sup>**

The GSA Act requires the Auditor-General to report to the GSF agency's Accountable Authority, their responsible Minister and the Treasurer, the results of the audit and any irregularities or other matters that in the judgement of the Auditor-General or authorised person call for special notice. The Audit Office meets this requirement by issuing a Statutory Audit Report. Where no matters require reporting, the Statutory Audit Report will state this. Matters that call for special notice can include matters of governance interest as defined by the Australian Auditing Standards.

A Statutory Audit Report is issued at the same time as the [Independent Auditor's Report](#) and will include misstatements identified during the audit. A Statutory Audit Report will also be issued during the year if the audit team discovers a significant matter.

The Annual Reports Acts require the NSW Government entities' and universities' annual report to include its responses to any significant issues raised by the Auditor-General in the Statutory Audit Report.

### **Letters to Those Charged with Governance who do not receive the Statutory Audit Report<sup>10</sup>**

Where the audit team identifies persons charged with the governance of a NSW Government entity who do not receive the Statutory Audit Report, it will send them similar information to that in the Statutory Audit Report.

<sup>9</sup> Applies to entities audited under the GSA Act.

<sup>10</sup> Applies to entities audited under the GSA Act.

## Report on the Conduct of the Audit<sup>11</sup>

Section 417 of the LG Act requires a Local Government entities' auditor to prepare a Report on the Conduct of the Audit (the Conduct Report). The Conduct Report is issued at the same time as the Independent Auditor's Report and will incorporate comments the auditor considers appropriate, based on the audit of the Local Government entity's financial statements.

## Communications to the Minister for Local Government

The LG Act requires the Auditor-General to communicate with the Minister for Local Government on all matters under the LG Act or regulations which, in the Auditor-General's opinion are sufficiently significant to be brought to the Minister's attention.

The Auditor-General meets this requirement by sending a letter to the Minister if matters that require reporting are identified.

## Auditor-General's Report to Parliament for financial statement audits

The following parties will be given the draft Auditor-General's Report (the Report) for comment:

- reports on NSW Government entities – the relevant Cluster Secretary/Accountable Authority
- reports on universities – Vice Chancellors of NSW universities
- reports on Local Government entities – the Minister for Local Government, Secretary DPIE, and for specifically named:
  - local councils, the Mayor/Administrator and General Manager
  - county councils, the Chairperson and the General Manager
  - joint organisations, the Chairperson and the Executive Officer.

Specific comments about an auditee will be provided to the auditee's nominated representative. The Audit Office would appreciate receiving responses promptly following the auditee receiving the draft Report for comment. Responses should only be provided where there is fundamental disagreement with significant issues raised by the Audit Office. This helps ensure the Report is not unduly delayed. During this process, the draft Report must remain confidential.

## Performance Audit Reports

The Auditor-General is required to report the result of a Performance Audit, or on any other matters that require special notice to the:

- Accountable Authority, responsible Minister and Treasurer; or
- Minister for Local Government, Secretary DPIE and each Local Government entity concerned.

NSW Government entities, the Treasurer, Ministers, Secretary DPIE and each council and joint organisation concerned are given an opportunity to respond to the Performance Audit Report before it is tabled in Parliament.

## Management letter for engagements other than Performance Audits

The audit team will send a management letter to the auditee detailing matters identified of governance interest, including internal control deficiencies, unresolved matters identified in previous audits, and value adding recommendations.

The management letter may be addressed to the head of the auditee and/or Chair of the Audit and Risk Committee and/or others, depending on the audit team's assessment of who is charged with governance.

A draft management letter will be sent to management to respond to matters raised. Management's responses will be incorporated into the final document.

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<sup>11</sup> Applies to Local Government entities.

The audit team may also send a copy of the management letter to the relevant Minister<sup>12</sup>.

## Engagement Closing Report for a financial statement audit

The Engagement Closing Report (ECR) summarises the audit outcomes. The ECR is addressed to the Accountable Authority/General Manager and/or Chair of the Audit and Risk Committee and/or others, depending on the audit team's assessment of who is charged with governance. The ECR is usually issued to:

- NSW Government entities and universities after the financial statements audit clearance meeting (refer [Section 11](#)), but before the representation letter is signed, the Accountable Authority signs the financial statements and the Chief Financial Officer (CFO) signs the Certification to Treasury as required under [TPP 17-06 Certifying the Effectiveness of Internal Controls Over Financial Information \(CFO Certification\)](#)<sup>13</sup>. Please discuss any matters management plans to report to Treasury in the CFO certification with the Audit Office on a timely basis
- Local Government entities after the financial statements audit clearance meeting (refer [Section 11](#)), but before the representation letter is signed, and the Councillors (the Governing Body for county councils and the Board for joint organisations) and management sign the financial statements.

## Letter of Observations on Early Close Procedures for a financial statement audit

The audit team issues a Letter of Observations on Early Close Procedures<sup>14</sup> (the Letter), which formally reports its observations of management's compliance with required early close procedures, the outcomes and the achievement of timeframes. It is addressed to the Accountable Authority and may be sent to the Chair of the Audit and Risk Committee.

The Letter is issued in sufficient time for management to incorporate these observations in the year-end financial reporting process.

## 6. SUBMITTING FINANCIAL STATEMENTS FOR AUDIT

### Statutory deadlines

Treasurer's Direction TD 21-02 'Mandatory Annual Returns' requires GSF agencies listed in Appendix A to prepare and submit financial statements to the Auditor-General within four weeks of each financial year-end. TD 21-03 'Submission of Annual GSF Financial Statements to the Auditor-General' requires GSF agencies that are not listed in Appendix A of TD 21-02 to prepare and submit financial statements to the Auditor-General within six weeks of financial year-end. NSW Government entities and universities may apply to the Treasurer for an extension of time.

Financial statements not received within the deadlines breach the Treasurer's Directions, unless the Treasurer has approved an extension of time. Late submission of financial statements impacts on the timeliness of the audit. The Auditor-General may report the late submission of financial statements to the responsible Ministers, the Treasurer and Accountable Authority.

The LG Act requires Local Government entities to submit their financial statements for audit as soon as practicable after the end of the financial year. The financial statements must be prepared and audited within four months after the end of the financial year. Local government entities may apply to OLG for an extension to this timeframe.

<sup>12</sup> This does not apply to Local Government entities.

<sup>13</sup> Applies to material entities (other than State Owned Corporations) identified in the NSW Government Budget Papers (Budget Paper 2) as a 'material entity controlled by the NSW Government' including departments, statutory bodies, and other entities to comply with the Core Requirements.

<sup>14</sup> Mandatory early close procedures apply to all NSW Government entities listed in Appendix A of Treasurer's Direction TD 19-02 'Mandatory Early Close as at 31 March each year'.

## Engagement Information Requests

An Engagement Information Request is issued to auditees detailing the minimum requirements and dates by which management has agreed to provide working papers to support the financial statements. Whilst the audit team will make every effort to identify all information requirements in the Engagement Information Request, the audit team may need to request further information during the audit.

## Statements accompanying financial statements

The Independent Auditor's Report can only be issued after the Auditor-General has received the signed statement by the:

- Accountable Authority as required by section 7.6(4) of the GSF Act
- Mayor, a councillor, the responsible accounting officer and the general manager<sup>15</sup> as required by section 413(2)(c) of the LG Act and clause 215 of the Local Government (General) Regulations 2005.

## Electronic presentation of audited financial statements and Independent Auditor's Reports

Legislation obliges most entities to publish their annual reports on their websites and send copies to the Minister or Parliament for publication on its website. Auditees should inform the audit team if the audited financial statements and the Independent Auditor's Report will be electronically presented on the auditee's website.

The auditee should maintain adequate security and controls over the information on the website to preserve its integrity. Examination of these controls is, however, beyond the scope of the audit (refer ['Independent Auditor's Report for a Financial Statement Audit'](#)).

The auditee's governing body and management are responsible for the electronic presentation of financial statements on any website.

The audit team will ask for the presentation to be changed, if it:

- is not satisfied with the proposed electronic presentation of the audited financial statements and the Independent Auditor's Report
- believes other information presented in these documents is inconsistent with other information on the website
- is not satisfied the auditee has clearly differentiated audited and unaudited information.

The auditor's signature may be reproduced in the annual report or in web-based material, but there is no legal or professional requirement to do so.

## 7. MATERIALITY, RISK AND THE INHERENT LIMITATIONS OF AN AUDIT

### Materiality and audit risk

Australian Auditing Standards require auditors to plan and perform the audit to obtain reasonable assurance the financial statements are free from material misstatement. Misstatements are differences between what has been reported in the financial statements and what is required in accordance with the auditee's financial reporting framework. Misstatements can arise from error or fraud.

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<sup>15</sup> For joint organisations, the chair of the board, a board member, the responsible accounting officer and the executive officer will sign the statement.

Information is material where, if omitted, misstated or not disclosed, it has the potential, individually or in aggregate, to influence the decisions of the users of the financial statements. We determine a dollar amount (overall materiality) to evaluate whether identified accumulated misstatements are quantitatively material. There are also qualitative factors that will impact our evaluation of whether misstatements are material.

The audit team will design audit procedures for financial statement line items and disclosures to detect misstatements less than overall materiality to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds materiality for the statements as a whole.

### **Inherent limitations of audits**

An audit does not guarantee every amount, disclosure or assertion subject to audit is error free. Because of the inherent limitations of any audit, it is possible irregularities, including fraud, other illegal acts or errors, may occur and not be detected. Audit procedures are not performed continuously throughout the period, nor are they designed to detect all irregularities. However, the audit team will inform the auditee of irregularities that come to its attention. Other inherent limitations include:

- the use of testing
- the effectiveness of an auditee's internal controls
- the possibility of collusion
- the fact most audit evidence is persuasive rather than conclusive.

### **Fraud, error and legislative compliance**

The Accountable Authority, Vice-Chancellor, Mayor/Administrator, Chairperson, General Manager or Executive Officer of an auditee is responsible for establishing and maintaining adequate accounting and internal control systems designed to prevent and detect fraud and error. Their responsibilities include ensuring the auditee complies with relevant laws and regulations.

An effective system of internal control is essential for preventing and detecting fraud and error. In forming an audit opinion on the financial statements, the audit team designs procedures to obtain reasonable assurance the financial information is fairly stated in all material respects. However, the inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, mean there is an unavoidable risk some material misstatements may remain undetected.

The audit team will seek representations regarding irregularities and fraud (see [section 9](#) for further details on representations). The Audit Office is obliged to report instances of suspected corrupt conduct to ICAC, and other oversight bodies (where appropriate).

### **Reporting misstatements and disclosure deficiencies in the financial statements**

To ensure that the financial statements are free from material misstatement, the audit team will request management to correct misstatements identified during the audit to ensure the accumulated undetected misstatements do not exceed overall materiality.

In addition, the audit team has certain obligations to report misstatements where Auditing Standards require matters of governance interest identified during the audit of the financial statements to be reported.

Misstatements and disclosure deficiencies will be reported as matters of governance interest in the Engagement Closing Report.

Misstatements and disclosure deficiencies that resulted from failures in internal controls and/or systemic deficiencies will be reported in the management letter.

## 8. PROVISION OF WORKING PAPERS

### Access to and transmission of auditee working papers

The audit team may need 'read only' access to the auditee's electronic systems. Management should provide the required access such as log-in IDs, terminals and printers.

If the auditee sends sensitive information to the audit team, whether by paper, electronically or otherwise, it must label the information accordingly (agencies should refer to '[NSW Government Information classification, labelling and handling guidelines](#)').

### Ownership of auditee working papers

All original documents obtained during the audit engagement shall remain the auditee's property. However, the audit team reserves the right to copy original documents for its records.

### Confidentiality

The Audit Office is authorised, for the purposes of an audit, to access an auditee's records under:

- section 36 of the GSA Act
- section 423 of the LG Act.

Where information is sensitive or commercial-in-confidence, the Auditor-General can formally request this information under section 36(4) of the GSA Act or section 423(2) of the LG Act. The Auditor-General and Audit Office staff are required by section 38(1) of the GSA Act and section 425(1) of the LG Act to preserve secrecy.

By virtue of section 43 and Schedule 2 of the [Government Information \(Public Access\) Act 2009](#), a NSW Government entity is unable to apply to exclude the Audit Office from access to documents relating to its investigative, audit and reporting functions.

The Audit Office will not disclose information acquired during the audit to other parties except as required or allowed for by law or professional standards. The audit files may, however, be reviewed:

- as part of the review of the Audit Office conducted pursuant to section 48A of the GSA Act
- as part of the quality control review program of ASIC, CPA Australia and/or Chartered Accountants Australia and New Zealand, which monitor compliance with professional standards by members
- as part of a peer or regulatory review of the Audit Office.

Signing the Acknowledgement of Terms attached to the covering letter of the AEP acknowledges that, if requested, the audit files may be made available as described above. The same strict confidentiality requirements apply to recipients of the audit files as they do to staff of the Audit Office.

The audit team may request information for the purposes of the audit. That information may contain fields of sensitive personal data. The Audit Office does not collect personal or health information unless it is necessary for it to carry out its functions and activities.

Personal information is dealt with in accordance with the twelve Information Protection Principles in the [Privacy and Personal Information Protection Act 1998](#) (Privacy Act). The Audit Office undertakes not to interfere with an individual's privacy rights in the way it collects, uses or discloses personal information, and to ensure individuals have a degree of control over their personal information.

The Audit Office has a Privacy Management Plan (the Plan), as required by the Privacy Act, that sets out the Audit Office's commitment to respecting the privacy rights of auditees, employees and members of the public. The Plan also outlines the Audit Office's practices and procedures in handling personal and health information. While the Privacy Act and the [Health Records and Information Privacy Act 2002](#) allow personal and health information to be transferred for the purposes of an audit, we encourage agencies to remove any personal, health or other sensitive information that is not required for the audit. While the Audit Office implements all mechanisms to prevent unauthorised

access to sensitive information, removing any sensitive data fields that are not required helps protect the privacy of members of the public, staff, contractors etc. if an information breach was to occur.

Ensure electronic data files are transmitted or physically delivered to the audit team in encrypted format, delivered securely or have had similar steps taken to prevent the unauthorised access to, or misuse of the information.

## 9. REPRESENTATIONS

### Representations from management and those charged with governance

Australian Auditing Standard ASA 580 'Written Representations' requires representations to be obtained from management and, where appropriate, those charged with governance, in relation to the audit of the auditee's financial statements.

At the end of the engagement, the audit team will ask for written representations in relation to the audit from:

- management (signed by the auditee head and the CFO (or equivalent))
- those charged with governance (if they have not signed the management representations).

Sample letters are available on the Audit Office [website](#). The date of the written representations must be as close as practicable to, but not after the date of the Independent Auditor's Report.

Before the Audit Office can issue the Independent Auditor's Report, the:

- GSF Act requires a statement signed by the GSF agency's Accountable Authority confirming the financial statements:
  - have been prepared in accordance with the Australian Accounting Standards and the applicable requirements of the GSF Act, the Government Sector Finance Regulation 2018 and the Treasurer's Directions, and
  - present fairly the GSF agency's financial position, financial performance and cash flows
- LG Act requires a statement signed by Councillors (the members of the governing body for local and county councils and the board for joint organisations) and management in accordance with section 413(2)(c).

### Letters from legal counsel

The audit team requires representations from the auditee's legal counsel (if any) to confirm the consequences of legal matters.

A model letter of enquiry to legal counsel for a financial statement audit is available on the Audit Office [website](#). Letters to those handling legal matters should be prepared on the auditee's letterhead and given to the audit team to send out. The audit team is required to send the letters.

## 10. ACCESS

### Authority to communicate with experts (where applicable)

The work of experts employed or contracted by the auditee (including valuers and actuaries) may be useful to the audit engagement. The audit team may need to communicate with the relevant experts during the planning and execution phases of the audit. Where the Audit Office will rely on the work of management's expert, it will also assess the qualifications, competence, integrity, and objectivity of the expert and the appropriateness of their work.

Management's signed Acknowledgement of Terms confirms the auditee's permission for the Audit Office to communicate with relevant experts.

## Protocol when obtaining an opinion from an accounting firm

If the auditee intends on getting an opinion on proposed accounting treatments, interpretations of accounting standards or the application of auditing standards from an accounting firm, please ask that firm to communicate with the audit team when developing its approach and to provide the audit team with a copy of its advice/opinion. This approach will help ensure the audit team has an opportunity to share its knowledge of the subject matter with the accounting firm at an early stage to achieve appropriate outcomes efficiently.

### Internal audit

The internal audit function forms part of an auditee's internal control environment. If internal audit services are performed by an external service provider, the contract must specify internal audit documentation remains the property of the auditee. This ensures the Audit Office has unfettered access to the documentation. Further information is available on Treasury's [website](#)<sup>16</sup>.

## 11. CLEARANCE MEETINGS

Before completing the engagement, the audit team will meet with senior management to discuss significant matters, brief them on significant findings and seek their views on unresolved matters.

## 12. ACCOMMODATION, FACILITIES AND STAFF AMENITY

### Work health and safety (WHS)

The Audit Office is committed to maintaining a high standard of work health and safety for everyone who works for the Audit Office and visits its workplaces.

The Audit Office expects auditees' cooperation to help it meet the legislated standards for the health, safety and welfare of Audit Office staff (which includes ASPs) when they are on auditee premises. The law requires the audit team be given suitable accommodation, which meets all WHS standards and administrative requirements.

The Audit Office, as an employer, has the right and responsibility to act in consultation with the auditee and Audit Office staff on health and safety within the work environment. The Audit Office will advise its staff to adhere to dress standards and wear the appropriate clothing and footwear (excluding personal protective equipment (PPE)) where required.

Auditees have a duty of care to the Audit Office staff under the *Work Health and Safety Act 2011*, Regulation, Codes of Practice and recognised industry standards, as appropriate, to ensure there is:

- provision of a safe workplace
- provision of a safe work system
- adequate supervision and training
- an induction to site and equipment, including amenities and evacuation procedures
- elimination of hazards and control of risks to health and safety.

Auditees are obliged to:

- ensure the premises are safe and do not expose Audit Office staff to risk of injury
- comply with health and safety legislation or regulations, codes of practice and recognised industry standards that apply to their workplace
- not allow Audit Office staff to work on a site or use equipment considered unsafe
- ensure the Audit Office is aware of special PPE requirements
- ensure Audit Office staff do not start work unless they are wearing the required PPE for the location and are provided with the appropriate WHS induction for their site
- immediately notify the Audit Office of any injury to an Audit Office staff member or any unsafe work practices engaged in by the Audit Office staff

<sup>16</sup> For NSW Government entities only.

- notify SafeWork NSW of any serious injury to an Audit Office staff member.

## Disability Action Plan

The *Disability Inclusion Act 2014* requires auditees to have an appropriate [Disability Action Plan](#) that gives all Audit Office staff equitable access to auditee premises and appropriate workplace adjustments.

## Respectful Workplace

The Audit Office has a respectful workplace policy and has implemented strategies to prevent and deal with bullying, discrimination and harassment. Audit Office staff are expected to treat employees of the auditee and each other with courtesy and sensitivity. Equally, the Audit Office expects the auditee's employees to treat Audit Office staff with courtesy and sensitivity.

## 13. DETERMINATION OF FEES FOR ENGAGEMENTS

For engagements, other than Performance Audits, the Audit Office charges fees based on time and direct out-of-pocket expenses, plus goods and services tax, where applicable. The fee assessment is based on the auditee's existing circumstances.

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 the use of public resources. For more information, please refer to the publication on the Audit Office [website](#).

Substantial and unforeseen changes will incur additional fees, as will separate inspections or examinations under the GSA Act or LG Act. The audit team relies on the following assumptions when budgeting the hours for each audit:

- the auditee's compliance with the audit team's requirements for the timely provision of accurate information
- no significant changes to the organisational structure, internal controls or accounting systems
- no major deficiencies in internal controls during the financial period
- internal audit undertakes all work detailed in the Internal Audit Plan and, if appropriate, additional work agreed with the audit team.

The Audit Office will discuss any anticipated changes to the fee with auditee management.

The auditee should provide the Audit Office with a purchase order for the total estimated engagement fee.

The Audit Office's terms of business require invoiced fees to be paid within 14 days of invoice date.

## OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

## OUR PURPOSE

To help parliament hold government accountable for its use of public resources.