Appendix 4

(Ref: Para.31)

Example of an Engagement letter for a mse

###### Illustration 1

The following is an example of an engagement letter for:

* 1. The audit of a general purpose financial report prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*; and
  2. A MSE (Grant Acquittal) comprising:
     1. Reasonable assurance for one subject matter; and
     2. Limited assurance for a different subject matter.

This letter illustrates (certain) requirements and principles in the AUASB Standards and can be used appropriately for a MSE. It will need to be adapted according to individual requirements and circumstances. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the requirements of the relevant AUASB Standards and engagement mandates.

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To the appropriate representative of management or those charged with governance of ABC Company Ltd. [[1]](#footnote-1)

[*The objective and scope of the audit and grant acquittal* (*or other assurance engagement*)]

You[[2]](#footnote-2) have requested that we audit the financial report of ABC Company Ltd., which comprises the statement of financial position as at 30 June 20X1 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the directors’ declaration.

You have also requested that we provide assurance in accordance with the terms of the grant agreement, titled (title) and dated (date) that you have entered into with Government Department (name). The engagement comprises an audit of the statement of grant income and expenditure for the period to 30 June 20X1 and limited assurance in relation to the company’s compliance with the terms of the grant agreement for the period to 30 June 20X1.

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our engagement will be conducted with the objectives of our expressing an opinion on the financial report and the statement of grant income and expenditure; and concluding on compliance with the terms of the grant agreement.

[*The responsibilities of the auditor*]

We will conduct our audit in accordance with Australian Auditing Standards and our limited assurance engagement in accordance with ASAE 3100 *Compliance Engagements* issued by the Auditing and Assurance Standards Board (AUASB). Those Standards require that we comply with ethical requirements and plan and perform the engagement to:

* 1. Obtain reasonable assurance about whether the financial report and the statement of grant income and expenditure relating to the (title) grant, are free from material misstatement.; and
  2. Obtain limited assurance about whether anything has come to our attention to cause us to believe that the company has not complied with the requirements of the grant agreement dated (date) with Government Department (name).

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the grant income and expenditure statement. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial report and statement of income and expenditure, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report and the statement of grant income and expenditure.

A limited assurance engagement undertaken in accordance with ASAE 3100 involves [level of detail about procedures to be determined by the auditor]. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement.

Because of the inherent limitations of an audit or assurance engagement, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements or   
non-compliance may not be detected, even though the engagement is properly planned and performed in accordance with AUASB Standards.

In making our risk assessments, we consider internal control relevant to the company’s preparation of the financial report and the statement of grant income and expenditure; and its compliance with the grant agreement in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion or conclusion on the effectiveness of the entity’s internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial report and the statement of grant income and expenditure; and the review of compliance with the grant agreement, that we have identified during the engagement.

[*The responsibilities of management* *and identification of the applicable financial reporting frameworks* (*for purposes of this example, it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms*).]

Our engagement will be conducted on the basis that [management and, where appropriate, those charged with governance][[3]](#footnote-3) acknowledge and understand that they have responsibility for:

* 1. The preparation of the financial report that gives a true and fair view in accordance with the *Corporations Act 2001* and Australian Accounting Standards;[[4]](#footnote-4)
  2. The preparation of the statement of grant income and expenditure in accordance with a cash basis of accounting;
  3. Compliance with the terms of the grant agreement with Government Department (name); and
  4. Such internal control as [management] determines is necessary to enable the preparation of the financial report and the statement of grant income and expenditure that is free from material misstatement, whether due to fraud or error; and compliance with the grant agreement; and

To provide us with:

* 1. Access to all information of which the directors and management are aware that is relevant to the preparation of the financial report and the statement of grant income and expenditure; and compliance with the grant agreement, such as records, documentation and other matters;
  2. Additional information that we may request from the directors and management for the purpose of the engagement; and
  3. Unrestricted access to persons within the company from whom we determine it necessary to obtain audit and other assurance evidence.

As part of our engagement, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the engagement.

We look forward to full cooperation from you and your staff during our engagement.

[*Other relevant information*]

[*Insert other information, such as fee arrangements, billings and other specific terms, as appropriate*.]

[*Reporting*]

Our intention is to issue:

* 1. A single auditor’s report in relation to the company’s general purpose financial report for the year ending (date); and
  2. A separate single‑form auditor’s report comprising:
     1. Our opinion on the statement of grant income and expenditure; and
     2. Our conclusion on the company’s compliance with the terms of the grant agreement with Government Department (name).

[*Insert appropriate reference to the expected form and content of the auditor’s reports*.]

The form and content of our reports may need to be amended in the light of our findings.

**Other Matters under the *Corporations Act 2001***

*Independence*

We confirm that, to the best of our knowledge and belief, we currently meet the independence requirements of the *Corporations Act 2001* in relation to the audit of the financial report. In conducting our audit of the financial report, should we become aware that we have contravened the independence requirements of the *Corporations Act 2001*, we shall notify you on a timely basis. As part of our audit process, we shall also provide you with a written independence declaration as required by the *Corporations Act 2001*.

The *Corporations Act 2001* includes specific restrictions on the employment relationships that can exist between the audited entity and its auditors. To assist us in meeting the independence requirements of the *Corporations Act 2001*, and to the extent permitted by law and regulation, we request you discuss with us:

* 1. the provision of services offered to you by [*insert firm name*] prior to engaging or accepting the service; and
  2. the prospective employment opportunities of any current or former partner or professional employee of [*insert firm name*] prior to the commencement of formal employment discussions with the current or former partner or professional employee.

*Annual General Meetings*

The *Corporations Act 2001* provides that shareholders can submit written questions to the auditor before an Annual General Meeting provided that they relate to the auditor’s report or the conduct of the audit. To assist us in meeting this requirement in the *Corporations Act 2001* relating to Annual General Meetings, we request you provide to us written questions submitted to you by shareholders as soon as practicable after the question(s) is received and no later than five business days before the Annual General Meeting, regardless of whether you believe them to be irrelevant.

**Presentation of Audited Financial Report on the Internet**

It is our understanding that ABC Company Ltd. intends to publish a hard copy of the audited financial report and auditor’s report for members, and to electronically present the audited financial report and auditor’s report on its internet web site. When information is presented electronically on a web site, the security and controls over information on the web site should be addressed by the entity to maintain the integrity of the data presented. The examination of the controls over the electronic presentation of audited financial information on the entity’s web site is beyond the scope of the audit of the financial report. Responsibility for the electronic presentation of the financial report on the entity’s web site is that of the governing body of the entity.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial report and the statement of grant income and expenditure; and our limited assurance engagement on compliance with the grant agreement, including our respective responsibilities.

Yours faithfully

......................

Partner

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company Ltd. by

(signed)

......................

Name and Title

###### Illustration 2

The following is an example of an engagement letter for a Grant Acquittal comprising:

* + 1. Reasonable assurance for one subject matter; and
    2. Limited assurance for a different subject matter.

This letter illustrates (certain) requirements and principles in the AUASB Standards and can be used appropriately for a MSE. It will need to be adapted according to individual requirements and circumstances. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the requirements of the relevant AUASB Standards and the engagement mandates.

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To the appropriate representative of management or those charged with governance of ABC Entity/Company Ltd. [[5]](#footnote-5)

[*The objectives and scopes of the grant acquittal audit and other assurance engagement*]

You[[6]](#footnote-6) have requested that we provide assurance in accordance with the terms of the grant agreement, titled (title) and dated (date) that you have entered into with Government Department (name). The engagement comprises an audit of the income and expenditure statement for the period to 30 June 20X1 and limited assurance in relation to the entity’s compliance with the terms of the grant agreement for the period to 30 June 20X1.

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our engagement will be conducted with the objectives of our expressing an opinion on the statement of grant income and expenditure; and concluding on compliance with the terms of the grant agreement.

[*The responsibilities of the auditor*]

We will conduct our audit in accordance with Australian Auditing Standards and our limited assurance engagement in accordance with ASAE 3100 *Compliance Engagements* issued by the Auditing and Assurance Standards Board (AUASB). Those Standards require that we comply with ethical requirements and plan and perform the engagement to:

* 1. Obtain reasonable assurance about whether the statement of grant income and expenditure relating to the (title) grant, is free from material misstatement; and
  2. Obtain limited assurance about whether anything has come to our attention to cause us to believe that the company has not complied with the requirements of the grant agreement dated (date) with Government Department (name).

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of grant income and expenditure. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the statement of grant income and expenditure, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the statement of grant income and expenditure.

A limited assurance engagement undertaken in accordance with ASAE 3100 involves [level of detail about procedures to be determined by the auditor]. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement.

Because of the inherent limitations of an audit or assurance engagement, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements or non‑compliance may not be detected, even though the engagement is properly planned and performed in accordance with AUASB Standards.

In making our risk assessments, we consider internal control relevant to the entity’s preparation of the statement of grant income and expenditure; and its compliance with the grant agreement in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion or conclusion on the effectiveness of the entity’s internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the statement of grant income and expenditure; and the review of compliance with the grant agreement, that we have identified during the engagement.

[*The responsibilities of management and identification of the applicable financial reporting frameworks* (*for purposes of this example, it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms*).]

Our engagement will be conducted on the basis that [management and, where appropriate, those charged with governance][[7]](#footnote-7) acknowledge and understand that they have responsibility for:

* 1. The preparation of the statement of grant income and expenditure in accordance with [a cash basis of accounting];
  2. Compliance with the terms of the grant agreement with Government Department (name); and
  3. Such internal control as [management] determines is necessary to enable the preparation of the statement of grant income and expenditure that is free from material misstatement, whether due to fraud or error; and compliance with the grant agreement; and

To provide us with:

* 1. Access to all information of which the directors and management are aware that is relevant to the preparation of the statement of grant income and expenditure; and compliance with the grant agreement, such as records, documentation and other matters;
  2. Additional information that we may request from the directors and management for the purpose of the engagement; and
  3. Unrestricted access to persons within the entity/company from whom we determine it necessary to obtain audit and other assurance evidence.

As part of our engagement, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the engagement.

We look forward to full cooperation from you and your staff during our engagement.

[*Other relevant information*]

[*Insert other information, such as fee arrangements, billings and other specific terms, as appropriate*.]

[*Reporting*]

Our intention is to issue a separate single‑form auditor’s report comprising:

* + 1. Our opinion on the statement of grant income and expenditure; and
    2. Our conclusion on the entity’s/company’s compliance with the terms of the grant agreement with Government Department (name)X.

[*Insert appropriate reference to the expected form and content of the auditor’s reports*.]

The form and content of our report may need to be amended in the light of our findings.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the statement of grant income and expenditure and our limited assurance engagement on compliance with the grant agreement, including our respective responsibilities.

Yours faithfully

......................

Partner

XYZ & Co.

Acknowledged and agreed on behalf of ABC Entity/Company Ltd. by

(signed)

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Name and Title

1. The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see ASA 210, paragraph A21. For an audit under the *Corporations Act 2001*, the appropriate persons are the Directors. [↑](#footnote-ref-1)
2. Throughout this example letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances. [↑](#footnote-ref-2)
3. Use terminology as appropriate in the circumstances. For an audit under the *Corporations Act 2001*, the appropriate terminology is “the Directors”. [↑](#footnote-ref-3)
4. Or for financial reports not prepared under the *Corporations Act 2001* - “For the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards.” [↑](#footnote-ref-4)
5. The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see ASA 210, paragraph A21. [↑](#footnote-ref-5)
6. Throughout this example letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances. [↑](#footnote-ref-6)
7. Use terminology as appropriate in the circumstances. [↑](#footnote-ref-7)