Appendix 1

(Ref: Para. A23‑A26)

##### Example of an Audit Engagement Letter

The following is an example of an audit engagement letter for an audit of a general purpose financial report prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this Auditing Standard. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of a financial report for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 13 of this Auditing Standard). It may be appropriate to seek legal advice that any proposed letter is suitable.

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

[The objective and scope of the audit]

You[[2]](#footnote-2) have requested that we audit the financial report of ABC Company 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 to the financial statements including material accounting policy information, and the directors’ declaration. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

[The responsibilities of the auditor]

We will conduct our audit in accordance with Australian Auditing Standards. Those standards require that we comply with ethical requirements. As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

* Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
* Obtain an understanding of internal control relevant to the audit in order to design audit 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. [[3]](#footnote-3) However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial report that we have identified during the audit.
* Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
* Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
* Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

[*The responsibilities of management* *and identification of the applicable financial reporting framework (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; the descriptions in   
paragraph 6(b) of this Auditing Standard are therefore used).*]

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance][[4]](#footnote-4) acknowledge and understand that they have responsibility:

* 1. For the preparation of the financial report that gives a true and fair view in accordance with the *Corporations Act 2001* and Australian Accounting Standards;[[5]](#footnote-5)
  2. For such internal control as [management] determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error; and
  3. To provide us with:[[6]](#footnote-6)
     1. Access to all information of which the directors and management are aware that is relevant to the preparation of the financial report such as records, documentation and other matters;
     2. Additional information that we may request from the directors and management for the purpose of the audit;
     3. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence; and

Aus (d) [Where applicable, in respect of other information:

* + 1. You will inform us of all the documents that you expect to issue that may comprise other information;

*If the other information is to be provided prior to the auditor’s report date:*

[The financial report and any other information you may obtain prior to the date of your auditor’s report will be consistent with one another, and the other information will not contain any material misstatements;] *or*

*If the other information will not be provided prior to the auditor’s report date:*

[With regard to any other information that you may not obtain prior to the date of the auditor’s report, that we intend to prepare and issue will provided to you by [insert date] to enable you to complete your required procedures.]]

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

We look forward to full cooperation from your staff during our audit.

[*Other relevant information*]

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

[*Reporting*]

[*Insert appropriate reference to the expected form and content of the auditor’s report, including, if applicable, the reporting on other information in accordance with ASA 720.*]

The form and content of our report may need to be amended in the light of our audit 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:

* the provision of services offered to you by [insert firm name] prior to engaging or accepting the service; and
* 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. [Applicable only to listed entities]

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

It is our understanding that ABC Company 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 including our respective responsibilities.

Yours faithfully

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

Partner

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

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

Name and Title

Date

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 paragraph A22. For an audit under the *Corporations Act 2001*, the appropriate persons are the Directors. [↑](#footnote-ref-1)
2. Throughout this 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. This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial report. [↑](#footnote-ref-3)
4. Use terminology as appropriate in the circumstances. For an audit under the *Corporations Act 2001*, the appropriate terminology is “the Directors”. [↑](#footnote-ref-4)
5. 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-5)
6. See paragraph A24 for examples of other matters relating to management’s responsibilities that may be included. [↑](#footnote-ref-6)