

GS 023
(December 2021)

Guidance Statement GS 023

Special Considerations – Public Sector Engagements

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on the application of AUASB Standards and, where relevant, legislation, regulation or other authoritative publication, to assist auditors and assurance providers to comply with Standards. Guidance Statements are intended to assist auditors and assurance practitioners in applying an existing standard or standards of general application to particular circumstances or specialised industries/sectors.

Guidance Statements are designed to provide guidance to auditors and assurance practitioners to achieve the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of, a specific AUASB Standard(s); and, where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement.

Guidance Statements, whilst formally approved and issued by the AUASB, do not establish new principles or amend existing standards. Guidance Statements therefore do not include any additional requirements or extend or vary the existing requirements of any AUASB Standards and are not legally enforceable.

Guidance Statement GS 023 *Special Considerations – Public Sector Engagements* provides supplementary application and other explanatory material in relation to selected issues identified as presenting challenges in applying AUASB Standards in the public sector. It is not, and is not intended to be, a substitute for compliance with relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 023 *Special Considerations – Public Sector Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist auditors and assurance practitioners to achieve the objective(s) of the audit or other assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. Auditors and assurance practitioners exercise professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: 8 December 2021

W R Edge
Chair - AUASB

Conformity with International Pronouncements

This Guidance Statement has been formulated for Australian public interest purposes and accordingly there is no equivalent International Auditing Practice Note (IAPN) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

In developing the Guidance Statement, the AUASB considered relevant guidance provided to public sector auditors in INTOSAI Guidance GUID 2900 *Guidance to the Financial Auditing Standards*, issued by the International Organisation of Supreme Audit Institutions (INTOSAI), as part of the INTOSAI Framework of Professional Pronouncements.

GUIDANCE STATEMENT GS 023

Special Considerations – Public Sector Engagements

Application

1. This Guidance Statement (GS) has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide supplementary guidance to public sector auditors and assurance practitioners in implementing and applying AUASB Standards¹ to audits, reviews, other assurance and related services engagements in the public sector (public sector engagements).
2. The aim of the AUASB in issuing this GS is to promote consistent application of AUASB Standards in the public sector to enhance the quality of public sector audit and assurance engagements and their resulting reports.
3. This GS is to be read and applied in conjunction with applicable AUASB Standards, which set out the minimum requirements and related application and other explanatory material that are to be applied in conducting public sector engagements. This GS does not establish or extend the requirements (or basic principles or essential procedures) under existing AUASB Standards for public sector engagements.
4. Auditors and assurance practitioners should exercise professional judgement when using this GS.

Issuance Date

5. This GS is issued by the AUASB on 8 December 2021.

Introduction

Structure and Scope of this GS

6. This GS comprises two parts:
 - (a) **Introductory guidance material**

The purpose of the introductory guidance material is to explain the purpose, status and authority of this GS and how the topic specific guidance material included in this GS is to be understood and applied to public sector engagements.

The introductory guidance material also provides the necessary context for the topic specific guidance material and outlines the unique challenges faced by public sector auditors and assurance practitioners in complying with AUASB Standards.

¹ AUASB Standards comprise Australian Auditing Standards (ASAs), Australian Standards on Quality Management (ASQMs), Standards on Assurance Engagements (ASAEs), Standards on Review Engagements (ASREs) and Standards on Related Services (ASRSs). See Auditing Standard ASA 101 *Preamble to AUASB Standards*, paragraphs 7 and 10.

(b) Topic specific guidance material

Topic specific guidance material is developed and issued when a need for specific supplementary guidance relating to public sector engagements is identified in practice, and will be incrementally added to the GS in response to emerging issues.

7. Whilst the AUASB generally does not set industry or sector specific standards, the AUASB may from time to time produce industry or sector specific guidance materials in the form of authoritative AUASB GSs and/or other non-authoritative materials. The AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications* (AUASB Due Process Framework) outlines the circumstances that may lead to the AUASB issuing guidance materials and identifies factors the AUASB will consider in determining the form of guidance that will be appropriate in the circumstances.²
8. AUASB GSs are authoritative AUASB pronouncements³ that are formally approved and issued by the AUASB. GSs are developed, issued and maintained in accordance with the AUASB's Due Process Framework.⁴ Refer to the *Foreword to AUASB Pronouncements* for further information on the purpose, authority and legal status of GSs.⁵
9. The topic specific guidance included in this GS aims to support public sector auditors and assurance practitioners in implementing and applying the AUASB Standards in practice by providing supplementary guidance in relation to the definitions, objectives, requirements and application and explanatory material contained in the standards.
10. The main objective is to provide additional guidance to support public sector auditors and assurance practitioners to either comply with the requirements in AUASB Standards or identify appropriate alternative procedures which will enable the auditor/assurance practitioner to achieve the objective of a standard.
11. This GS covers only selected issues identified as presenting challenges in applying AUASB Standards to public sector engagements. It includes application and explanatory material on specific matters for the purposes of understanding and complying with the relevant requirements in AUASB Standards. In particular, guidance may:
 - explain more precisely what a requirement means or is intended to cover;
 - provide background information on matters addressed in an AUASB Standard, for example, to explain circumstances that may need further consideration in the public sector;
 - include examples that illustrate how the requirements might be applied and/or provide examples of procedures that may be appropriate in the circumstances; and
 - include illustrative examples of auditor reports or other documents.

² See AUASB Due Process Framework, Sections IV, IX and X.

³ See *Foreword to AUASB Pronouncements*, paragraphs 10-23.

⁴ See AUASB Due Process Framework, Section IX.

⁵ See *Foreword to AUASB Pronouncements*, paragraphs 20-23.

Public Sector Engagements

12. Law or regulation governing public sector engagements generally mandate the appointment of a public sector auditor/assurance practitioner and commonly set out the public sector auditor's/assurance practitioner's responsibilities, functions and powers. Law or regulation may also prescribe other aspects of the terms of the engagement, including the objective and scope of the engagement and the responsibilities of management. There may be instances where the mandate or authority to perform an engagement and the public sector auditor's/assurance practitioner's powers reside in different pieces of legislation. AUASB Standards do not override law or regulation in such matters.
13. Where a public sector engagement is mandated by legislation, the public sector auditor/assurance practitioner cannot avoid such an obligation and, consequently, may not be in a position to not accept (that is, to decline) or not continue (that is, to withdraw from) the engagement. A public sector auditor/assurance practitioner may be required to perform these types of engagements whether or not the preconditions for the engagement exist and whether or not management's agreement on the terms of the engagement has been obtained. Consequently, the acceptance and continuance requirements of AUASB Standards may not be applicable to the public sector for legislatively mandated engagements.
14. In addition to legislatively mandated audits and assurance engagements in the public sector, the appointment of a public sector auditor/assurance practitioner may also be included as a requirement of an agreement, such as a Commonwealth agreement for the provision and acquittal of funding by the States and Territories or grant agreements from governments to Non-Government Organisations (NGO) service providers.
15. In Australia, Commonwealth, State or Territory Auditors-General are responsible for undertaking the majority of public sector engagements. Engagements at local government level are the responsibility of State or Territory Auditors-General in some jurisdictions, while in others, local government engagements are conducted by private sector auditors or audit firms, with or without the Auditor-General having an oversight role. Statutory bodies may be audited by private sector auditors or audit firms but this will depend on the specific legislation under which these entities operate.
16. Auditors-General exercise their public sector audit function within their specific jurisdictional legislative mandate, which governs the independence of their role and power of discretion in performing certain duties.
17. The responsibility to form an opinion or conclusion and to report outcomes is usually the domain of the respective Auditor-General. Depending on the legislative mandate in each jurisdiction, an Auditor-General may in some cases:
 - (a) engage a private sector auditor or audit firm under contract to assist and/or undertake certain functions of the Auditor-General; and/or
 - (b) delegate to a person employed in the Auditor-General's Office, or to a private sector auditor or audit firm, the power to express an opinion or conclusion, or to make a report.
18. In addition to legislatively mandated engagements, legislation may enable an Auditor-General to undertake audits or audit-related services by arrangement - that is, a public sector entity, a minister or the Legislature may request audits or audit-related services under an agreement with the Auditor-General. These engagements may be requested as a once-off arrangement or

as an annually recurring service. These types of engagements are often referred to as “by-arrangement” or “by-request” audits or reviews. An Auditor-General may only undertake these types of engagement where it falls within the Auditor-General’s legislative powers.

19. Auditors-General in Australia may be mandated to perform different types of assurance engagements on any subject of relevance to the responsibilities of management and those charged with governance of a public sector entity and the application of public resources. The extent or form of these engagements and the reporting thereon will vary according to the legislated mandate of the Auditor-General concerned and any legislation applicable to the entity which is the subject of the audit.
20. Depending on the legislative mandate in each jurisdiction, Auditors-General may be required to:
 - (a) conduct public sector engagements in accordance with applicable AUASB Standards;
 - (b) have regard to recognised professional standards; or
 - (c) set their own standards. Standards established by an Auditor-General may incorporate AUASB Standards.

Financial Audits

21. In the Australian public sector, the scope and nature of financial audits conducted by public sector auditors are governed by relevant enabling legislation in each different jurisdiction.
22. For the purpose of this GS, the term “financial audit” means an audit that focuses on determining whether an entity’s financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.⁶
23. For financial audits conducted under AUASB Standards, the public sector auditor applies the Australian Auditing Standards (ASAs) relevant to the engagement. As described in the Preamble to AUASB Standards⁷, AUASB Standards are:
 - (a) neutral with respect to the audited or reviewed entity’s sector and size; and
 - (b) intended to be applied, as appropriate, to all audit, review, assurance and related service engagements conducted by an auditor or audit firm in both the public and private sectors⁸.

The application and explanatory material in ASAs may contain considerations specific to public sector entities.

24. The public sector auditor’s responsibilities may be affected by the audit mandate, or by obligations on public sector entities arising from law, regulation or other authority (such as ministerial directives, government policy requirements, or resolutions of the Legislature), which may encompass a broader scope than an audit of a financial report in accordance with the ASAs. Given the ASAs are sector neutral, these additional responsibilities are not dealt

⁶ INTOSAI Standard ISSAI 100 *Fundamental Principles of Public-Sector Auditing*, paragraph 22.

⁷ See Auditing Standard ASA 101 *Preamble to AUASB Standards*, paragraphs A11-A15.

⁸ In the public sector, “audit firm” is to be read as referring to a public sector equivalent, for example, an Auditor-General’s Audit Office.

with in the standards. They may be dealt with in standards or guidance issued by government audit agencies.⁹

25. The scope of an annual audit in the public sector may include, in addition to the audit of the financial report of a public sector entity, an audit of service performance (for example, an audit of annual performance information or performance statements) and/or elements of a compliance engagement (for example, reporting on compliance with key legislation). A public sector auditor may also perform other discretionary assurance engagements such as performance audits, reviews or assurance engagements on controls (refer to paragraph 29 below).
26. Specific requirements may exist within the legislation governing the audit mandate, for example, the public sector auditor may be required to report directly to a minister, the Legislature or the public if the entity attempts to limit the scope of the audit. Furthermore, law or regulation may establish additional reporting requirements for the auditors of public sector entities, for example, to prepare a separate report on instances of non-compliance with law or regulation to the Legislature or other governing body, or communicating such instances in the auditor's report on the financial report.
27. In the public sector, there are many users of financial information including, but not limited to, the audited entity, ratings agencies, analysts, lending institutions, service providers and recipients, parliament, ministers and the public. In order to meet the information requirements of a broad range of users, a public sector auditor's mandate may require, or allow for, reporting on non-compliance with laws or regulations and unacceptable conduct (such as lack of probity) in the public sector. Auditors-General may elect or may be required to address probity and public interest considerations in their annual financial audits. This may necessitate a further broadening of the scope of an audit beyond the scope envisaged by the ASAs under which the audit is performed. The broadening of scope may present a challenge for the auditor in determining how to effectively report on the outcome of any additional work the auditor may decide to undertake within the structure of the opinion normally required by the relevant ASAs.
28. The objectives of a financial audit in the public sector therefore may be broader than expressing an opinion on whether the financial report has been prepared, in all material respects, in accordance with an applicable financial reporting framework. The ASAs and ASAEs provide minimum requirements and application material; however, as they are written to be sector neutral, additional guidance may be required to support the broader scope of engagements undertaken in the public sector to promote consistency.

Other Assurance and Assurance Related Engagements

29. For other public sector assurance and assurance related engagements required to be conducted under AUASB Standards, the public sector assurance practitioner applies the relevant requirements of the applicable AUASB Standard relevant to the engagement. For example:
 - Reviews of financial reports or historical financial information (limited assurance engagements) — refer to the applicable Standards on Review Engagements.

⁹ See ASA 200, paragraph A59. In Australia, the term "government audit agencies" refers to Commonwealth, State or Territory Auditors-General.

- Assurance engagements on subject matters other than historical financial information — refer to Standard on Assurance Engagement ASAE 3000.¹⁰
- Compliance engagements — refer to Standard on Assurance Engagement ASAE 3100.¹¹
- Assurance Engagements on Controls — refer to Standard on Assurance Engagement ASAE 3150.¹²
- Performance engagements — refer to Standard on Assurance Engagement ASAE 3500.¹³

Addressing Challenges associated with applying AUASB Standards in the Public Sector

30. As noted in paragraph 23, AUASB Standards are designed to be neutral with respect to the sector and the size of the entity subject to the engagement, and are intended to be applied, as appropriate, to engagements in both the public and private sectors.
31. Where appropriate, additional considerations specific to the public sector are included within the application and other explanatory material of AUASB Standards. These additional considerations assist in the application of the requirements of the standards in such engagements. However, these considerations and associated guidance are not extensive and, as a result, the standards focus largely on engagements undertaken in the private sector where the objective is to form a conclusion in respect of compliance with a reporting framework.
32. Due to the differences between engagements undertaken in the public and private sectors, public sector auditors and assurance practitioners may face challenges in applying the AUASB Standards in the public sector. For example, practitioners may need to apply professional judgement in:
 - interpreting terminology used in AUASB Standards that is not usually found in the public sector, for example, terms such as “client”, “listed entity”, “firm”, “partner”, “engagement partner” and “lead assurance practitioner”.
 - applying AUASB Standards in delivering audit mandates established within legislation.
 - distinguishing a compliance engagement from a financial audit with elements of compliance with law or regulation.
 - determining materiality levels for public sector engagements where, for example, application of private sector benchmarks may not be appropriate and where the impact of qualitative considerations may be more prevalent.
 - identifying and communicating matters required to be reported by law or regulation within the structure of the opinion promulgated by the relevant AUASB Standards.

¹⁰ See ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

¹¹ See ASAE 3100 *Compliance Engagements*.

¹² See ASAE 3150 *Assurance Engagements on Controls*.

¹³ See ASAE 3500 *Performance Engagements*.

- complying with AUASB Standards in circumstances where it may be against the public interest to disclose certain sensitive information in publicly released reports.

Structure of Topic Specific Guidance

33. Topic specific guidance included in this GS is structured as follows:

(a) Application

This section clarifies how the topic specific guidance is to be used and for what purpose it has been developed, and identifies:

- the relevant AUASB Standard the guidance applies to; and
- the type of engagement (or combination thereof) and, where relevant, the subject matter it addresses.

It includes a clear statement that the GS:

- provides supplementary guidance in relation to the AUASB Standard it applies to and that it does not contain any further requirements for the conduct of the public sector engagement; and
- is to be read and applied together with the relevant AUASB Standard.

(b) Introduction (where applicable)

Topic specific guidance may include further introductory material to provide context relevant to a proper understanding of the topic specific supplementary guidance. Introductory material may include, as necessary, such matters as explanation of the:

- purpose and scope of the supplementary guidance, including how the guidance relates to other segments of the GS; and
- topic specific subject matter.

(c) Scope

This section identifies the specific paragraphs or sections of the AUASB Standard the supplementary guidance relates to.

(d) Definitions

Definitions necessary to understand guidance provided in this GS are included with the topic specific guidance it relates to.

(e) Guidance

This section sets out supplementary application and other explanatory material to assist the auditor/assurance practitioner to achieve the objectives of the relevant AUASB Standards.

Drafting Conventions

34. The following drafting conventions apply to guidance material included in this GS:
- (a) Words such as “should”, “shall” or “must”, or any other term that denotes something as a mandatory requirement, are not to be used, except when repeating or referring to the requirements from relevant AUASB Standards.
 - (b) Guidance supports the general requirements and application and explanatory material contained in AUASB Standards, and:
 - (i) does not extend the requirements of the public sector auditor/assurance practitioner as stated in the AUASB Standards;
 - (ii) refers to the requirements in the AUASB Standards to which the guidance is supplementary; and
 - (iii) is consistent with the relevant AUASB Standards the guidance relates to.
 - (c) The present tense of verbs is used when it is the best form of expression. Use of the present tense does not create or imply mandatory requirements.
 - (d) The word “including” means a list of items or examples is provided but the list does not purport to contain all relevant items or examples and intentionally is not exhaustive.

Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements*

Application

35. This section of the GS provides supplementary application and other explanatory material in relation to selected issues identified as presenting challenges in applying Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements* in the public sector. It does not contain any further requirements for the conduct of the audit. It is to be read and applied together with ASA 210.

Introduction

36. ASA 210 deals with the auditor’s responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes:
- (a) establishing that certain preconditions for an audit are present before accepting the engagement; and
 - (b) confirming that there is a common understanding between the auditor and the entity of the terms of the audit engagement.
37. The preconditions for an audit are defined in ASA 210, paragraph 4, to mean the use by management¹⁴ of an acceptable financial reporting framework in the preparation of the financial report and the agreement of management to the premise¹⁵ on which an audit is conducted.
38. In the public sector, law or regulation governing the operations of public sector audits generally mandate the appointment of a public sector auditor and commonly set out the public sector auditor’s responsibilities, functions and powers, including the power to access an entity’s records and other information. Law or regulation may also prescribe other aspects of the terms of the audit engagement, including the objective and scope of the audit and the responsibilities of management. ASAs do not override law or regulation in such matters.
39. Where the public sector financial audit is mandated by legislation, the public sector auditor cannot avoid such an obligation and, consequently, may not be in a position to not accept (that is, to decline) or not continue (that is, to withdraw from) the engagement. The public sector auditor may be required to perform these types of audits whether or not the ASA 210 preconditions for the audit exist and whether or not management’s agreement on the terms of the engagement has been obtained.
40. Consequently, the use of engagement letters may not be a widespread practice in the public sector for audits mandated by legislation. Nevertheless, there may be benefit in communicating a common understanding of the terms of the audit engagement between the auditor who is carrying out the audit and those charged with governance of the public sector

¹⁴ Consistent with ASA 210, references to “management” should be read hereafter as “management and, where appropriate, those charged with governance”.

¹⁵ See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 13(j).

entity, to avoid misunderstandings with respect to the engagement and to provide for an efficient and quality audit to be carried out.

41. Use of ASA 210 terminology such as to “accept” or “continue” an audit engagement, or to “agree” the terms of an engagement with management may be problematic in the public sector context for audits mandated by law or regulation.
42. This section of the GS provides additional guidance to reflect the public sector perspective on ‘agreeing’ the terms of financial audit engagements undertaken in the public sector.

Scope of ASA 210 Supplementary Guidance

43. This section of the GS provides supplementary guidance for public sector auditors related to the following requirements of ASA 210:
 - (a) Preconditions for an Audit – Obtain agreement of management that it acknowledges and understands its responsibility (ASA 210, paragraph 6(b)).
 - (b) Agreement on Audit Engagement Terms (ASA 210, paragraphs 9-13).

Guidance

Preconditions for an Audit

Obtain Agreement of Management that it Acknowledges and Understands its Responsibility (ASA 210, paragraphs 6(b) and 12)

44. An audit in accordance with ASAs is conducted on the premise that management has acknowledged and understands that it has the responsibilities set out in paragraph 6(b) of ASA 210. To avoid misunderstanding about the respective responsibilities of management and the auditor, ASA 210, paragraph 6(b), requires the auditor to obtain the agreement of management that it acknowledges and understands these responsibilities. In the private sector, this acknowledgement from management is usually obtained as part of agreeing and recording the agreed terms of the audit engagement in an engagement letter or other suitable form of written agreement, in accordance with the requirements of ASA 210, paragraphs 9-12.
45. However, the terms of an audit engagement in the public sector are normally mandated by legislation and therefore not subject to traditional contractual agreement with management. The legislated right in itself is an implicit agreement between the parties of the terms of the engagement. ASA 210 addresses this situation and outlines that if, in the circumstances described in paragraphs 10 and 11 of the Standard, the public sector auditor concludes that it is not necessary to issue an engagement letter or other suitable form of written agreement, the auditor is required only to obtain the acknowledgement of management that it understands that it has the responsibilities set out in paragraph 6(b) of the Standard.
46. In accordance with paragraph 12 of the Standard, the written acknowledgement from management may use the wording of the law or regulation if such law or regulation establishes responsibilities for management that are equivalent in effect to those described in paragraph 6(b) of the Standard. For those responsibilities that are not prescribed by law or regulation such that their effect is equivalent, the written acknowledgement uses the description in paragraph 6(b) of the Standard.
47. When obtaining the agreement of management that it acknowledges and understands its responsibility as required in ASA 210, paragraph 6(b), the public sector auditor also takes into account the fact that the responsibilities of management in the public sector may be broader,

and there may be increased value in formalising the acknowledgement and understanding of such responsibilities.

Agreement on Audit Engagement Terms

Legislatively Mandated Financial Audits

Agreeing the Terms of the Audit Engagement (ASA 210, paragraph 9)

48. The terms of an audit engagement in the public sector are normally mandated by legislation and thus not subject to requests from, and agreement with, management. Therefore, ASA 210, paragraph 9, is not relevant in these circumstances.

Engagement Letter or Other Form of Written Agreement (ASA 210, paragraphs 10-11, 13)

49. Whether or not to formally record the terms of the engagement in an engagement letter or other suitable form of written agreement depends on whether law or regulation prescribes in sufficient detail the matters described in ASA 210, paragraph 10.
50. If law or regulation prescribes in sufficient detail the matters described in paragraph 10 of the Standard, paragraph 11 of the Standard permits the auditor to include in the engagement letter only reference to the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b).
51. In circumstances where paragraph 11 of the Standard applies, the public sector auditor is therefore not required to issue a full engagement letter¹⁶ or to obtain management's formal agreement to the terms of the engagement.¹⁷ However, the public sector auditor is still required to obtain the written acknowledgement from management that it understands that it has the responsibilities set out in paragraph 6(b) of the Standard (see paragraphs 44-47 above).
52. For paragraph 11 to apply, ASA 210 requires the relevant law or regulation includes all the elements outlined in paragraph 10 of the Standard and prescribe in sufficient detail the terms of the audit engagement. The law or regulation describing the elements in paragraph 10 may be from different sources.
53. Where law or regulation does not include all the elements outlined in paragraph 10 of the Standard or is not sufficiently detailed, paragraph 11 of the Standard does not apply and the public sector auditor will be required to include the relevant detail in an engagement letter (or equivalent form of communication) in order to comply with ASA 210, paragraph 10.
54. In circumstances where paragraph 11 of the Standard applies (see paragraphs 50-52 above), the public sector auditor may nonetheless consider that there may be benefit in communicating the matters described in paragraph 10 of the Standard in an engagement letter (or equivalent form of communication) for the information of management. The objective of the public sector auditor in documenting and communicating the terms of the engagement in these circumstances, is to confirm that there is a common understanding of the terms between the auditor who is carrying out the audit and management of the public sector entity, to clarify any

¹⁶ That is, an engagement letter that includes all the elements outlined in paragraph 10 of the Standard.

¹⁷ If the circumstances described in ASA 210, paragraph 11, applies to the engagement, there is no requirement for the auditor to document the reasons why an engagement letter that includes all the elements outlined in paragraph 10 of the Standard has not been issued in accordance with the requirements of paragraphs 9-10, as the requirement is not relevant in the circumstances of the engagement. See ASA 101, paragraphs A41-A43.

matters that may be misunderstood¹⁸ and to provide for an efficient and quality audit to be carried out.

55. Use of an engagement letter (or equivalent form of communication) that draws together the detail of the terms of the engagement may be particularly beneficial where there are matters that are unique to the engagement, or where the matters described in paragraph 10 of the Standard are located in more than one piece of legislation.
56. In these circumstances, the engagement letter (or equivalent form of communication) is not an agreement (contract) nor is it an audit proposal, and neither the public sector entity nor the public sector auditor can use the engagement letter as a vehicle to negotiate or vary the terms of the engagement in the letter. The engagement letter (or equivalent form of communication) communicates the terms of the engagement, as determined under law or regulation, to the public sector entity. The auditor is required to obtain acknowledgement that management understands its responsibilities - not agreement of the terms of the engagement outlined in the letter.
57. Documentation of the terms of the engagement cannot reduce obligations imposed by law or regulation and the public sector auditor is required to refer to the applicable provisions of the law in undertaking the engagement.

Form and Content of Engagement Letter or Equivalent Communication

58. As noted in ASA 210, paragraph A23, it is in the interests of both the public sector entity and the public sector auditor that an engagement letter or equivalent communication is issued before the engagement commences to help avoid misunderstandings with respect to the engagement.
59. On recurring engagements, the public sector auditor applies professional judgement to determine whether there is a need to periodically re-issue the engagement letter and/or obtain re-acknowledgement from management that it understands its responsibilities, for example, taking into account the factors outlined in ASA 210, paragraph A30.
60. Typically, engagement letters issued for new recurring engagements may represent a standing arrangement until such time as the public sector auditor issues a new letter due to changes in the conditions or the scope of the engagement, or significant changes in the senior management of the public sector entity or in management's responsibilities.
61. The public sector auditor may also consider drafting an engagement letter that extends beyond one year. For example, an Auditor-General may decide to publish an engagement letter to Parliament for the life of the Parliament, although no specific response is required or received back.
62. The form and content of the engagement letter may vary according to the nature of the engagement, the terms of appointment of the public sector auditor, and the extent to which the terms of the engagement are prescribed in law or regulation, and may be in a form different to a traditional engagement letter. For example, as detailed in the previous section, in circumstances where law or regulation mandate the appointment of a public sector auditor and prescribe in sufficient detail the terms of the engagement, the auditor is not required to issue an engagement letter that includes all the elements outlined in paragraph 10 of the Standard.

¹⁸ For example, such communication may assist to avoid misunderstanding about the respective responsibilities of management and the public sector auditor.

63. In circumstances where the public sector auditor concludes that it is not appropriate or necessary to issue a traditional engagement letter or other form of written agreement, the terms of the engagement and other arrangements may be communicated to management at preliminary (entrance) meetings with the entity. Different jurisdictions may use different approaches and different documents¹⁹ for this purpose.
64. The public sector auditor requests management to acknowledge receipt of the engagement letter (or equivalent communication) and that it acknowledges and understands its responsibilities. The auditor may also consider seeking written acknowledgement from management of other aspects of the terms of the engagement²⁰ or arrangements concerning the engagement. Typically, the auditor obtains such acknowledgement for new engagements, once-off engagements or where there has been changes to the scope of the engagement or changes in senior management of the entity.
65. In the public sector, there may be additional matters besides the examples listed in ASA 210, paragraphs A24-A26, that public sector auditors have to report if they become aware of them during the course of the audit and that may be relevant to the engagement letter. When relevant, other audit objectives stipulated by the mandate may also be included in the engagement letter (or equivalent communication).
66. ASA 210, paragraph A25, recommends that it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report. Public sector auditors may be required to, or may decide to, communicate key audit matters to other parties, such as the Legislature, in addition to management or those charged with governance when relevant legal provisions do exist.

Audits Conducted By Arrangement

67. In addition to legislatively mandated audits, legislation may enable a public sector auditor to undertake audits and audit-related services by arrangement – that is, a public sector entity, a minister or the Legislature may request an audit or review under an agreement with the public sector auditor. These engagements may be requested as a once-off arrangement, or as an annually recurring service. These types of engagements are often referred to as “by-arrangement” or “by-request” audits or reviews. A public sector auditor may only undertake these types of engagements where it falls within the auditor's legislative powers.
68. As these types of engagements are not legislatively mandated, the public sector auditor, in limited circumstances, may have discretion on whether to accept, or continue with, the engagement (for example, when requested by a public sector entity). However, legislation may provide for the public sector auditor to undertake these types of engagements at the request or direction of a Minister or the Legislature. Where this is the case, the public sector auditor will not generally have discretion to decline the request and may not be required to obtain agreement from the auditee of the terms of the engagement.
69. For these types of engagements, the public sector auditor complies with the relevant requirements of ASA 210 as applicable to the engagement. This may include agreeing the terms of the engagement, which includes the matters set out in paragraph 10 of ASA 210,

¹⁹ For example, overall planning or strategy type documents are often used to communicate the objective and scope of the engagement.

²⁰ For example, the objective and scope of the engagement, the responsibilities of the auditor and identification of the applicable financial reporting framework for the preparation of the financial report.

with management and recording the agreed terms in an engagement letter (or equivalent communication) before any assurance work is undertaken.