

Terms of Engagement

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A. LIMITATIONS ON SCOPE

A.1 Financial Statements

An audit of the financial statements provides reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. 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. Evidence examined during an audit of the financial statements is often not conclusive and it is not possible for all available evidence and every transaction supporting the financial statements to be examined.

An audit of the financial statements does not provide assurance about the prudence of decisions made by the audited entity or the effectiveness, efficiency and economy of its operations and internal controls.

Where budget information is included in the financial statements, the Audit Office does not assess the relevance or usefulness of the budget information disclosed in the financial statements.

A.2 Statement of Performance

The procedures performed for a limited assurance engagement on the statement of performance are less in extent than those required in a reasonable assurance engagement. Consequently the level of assurance obtained is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, a reasonable assurance opinion is not expressed on the statement of performance.

The limited assurance engagement does not provide assurance on the:

- relevance or appropriateness of the accountability indicators reported in the statement of performance or the related performance targets;
- accuracy of explanations provided for variations between actual and targeted performance due to the often subjective nature of such explanations; or
- adequacy of controls implemented by the audited entity.

B. RESPONSIBILITIES OF THE AUDITED ENTITY

B.1 Responsibilities for Reporting

The Audit Office performs the audit of the financial statements and the limited assurance engagement on the statement of performance on the basis that those charged with governance¹ of the audited entity acknowledge and understand their responsibilities for the financial statements and statement of performance as required by Australian Auditing Standards².

B.2 Financial Statements

Those charged with governance of the audited entity are responsible for:

- preparing the financial statements in accordance with applicable Australian Accounting Standards and relevant legislation;
- certifying that the financial statements fairly reflect the financial operations of the audited entity during the reporting period and the financial position of the audited entity at the end of the reporting period;
- selecting significant accounting policies used to prepare the financial statements and ensuring that these policies comply with Australian Accounting Standards and have been correctly applied and properly disclosed;
- complying with legislation relevant to the audited entity's reporting obligations;
- implementing adequate internal controls which safeguard assets to prevent and detect fraud;
- implementing adequate internal controls over financial reporting processes which prevent and detect erroneous and fraudulent reporting;
- providing complete and accurate information about the financial statements;
- providing the audit team unrestricted and timely access to information;
- assessing the audited entity's ability to continue as a going concern and, if relevant, disclose matters relating to the going concern basis of preparation in the financial statements;
- assessing whether any misstatements or omissions identified are quantitatively or qualitatively material to the fair presentation of the financial statements; and
- providing written representations to the Audit Office.

¹ Paragraph 10 'Definitions' of Australian Auditing Standard ASA 260: 'Communication with Those Charged with Governance'.

² Paragraph 10 of Australian Auditing Standard ASA 210: 'Agreeing the Terms of the Audit Engagement'.

B.3 Statement of Performance

Those charged with governance of the audited entity are responsible for:

- preparing the statement of performance in accordance with the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2019*;
- certifying that the statement of performance fairly reflects the service performance of the audited entity during the reporting period;
- correctly measuring the results of accountability indicators disclosed in the statement of performance and ensuring that these results are clearly explained in the statement of performance;
- implementing adequate internal controls over performance reporting processes which prevent and detect erroneous and fraudulent reporting;
- providing complete and accurate information about the statement of performance;
- providing the audit team unrestricted and timely access to information;
- assessing whether any misstatements or omissions identified are quantitatively or qualitatively material to the fair presentation of the statement of performance; and
- providing written representations to the Audit Office.

B.4 Statements of Responsibility

The statements of responsibility for the financial statements and statement of performance can be certified at any time before the auditor's report on the financial statements and the limited assurance report on the statement of performance are provided by the Auditor-General.

Any draft financial statements and statement of performance provided to the signing officer for examination must be authorised by those charged with governance of the audited entity.

The draft and certified financial statements and statement of performance may be provided to the Auditor-General either in printed form or electronically.

B.5 Management Representation Letters

The Audit Office will seek written representations from those charged with governance of the audited entity on specific matters relating to the financial statements and statement of performance.

These representations must be provided to the Audit Office before the auditor's report on the financial statements and limited assurance report on the statement of performance can be signed.

B.6 Supporting Workpapers

B.6.1 Availability of Workpapers

To provide assurance that the audit is completed on time, workpapers supporting the financial statements and statement of performance must be complete and readily available to the audit team at the time the financial statements and statement of performance are provided to the Auditor-General for audit.

Workpapers may be prepared in either paper or electronic form, but must be subject to a thorough review and stored in a central location. The Audit Office prefers the audited entity provide electronic workpapers if possible.

B.6.2 Information Schedule

An 'Information Schedule' has been developed to assist audited entities in compiling information that is requested during the audit of the financial statements.

The 'Information Schedule' does not have all information that will be requested, however, having this information complete and readily available to the audit team will assist in completing the audit in an efficient manner.

The 'Information Schedule' can be obtained from the Audit Office's website (<https://www.audit.act.gov.au/audit-services#financial-audits>).

B.6.3 Analytical Review of the Financial Statements

Workpapers supporting the financial statements should contain an analytical review of the financial statements which includes explanations of major variances between current and prior year amounts and where relevant budget amounts disclosed in the financial statements. These explanations should be clear, concise, independently verifiable and based on thorough analysis.

An 'Analytical Review' template can be obtained from the Audit Office's website (<https://www.audit.act.gov.au/audit-services#financial-audits>) to assist in compiling these explanations.

B.7 Acknowledgement of Responsibilities

Australian Auditing Standards³ require the Audit Office to obtain evidence that those charged with governance of the audited entity acknowledge their responsibility for the fair presentation of the financial statements and statement of performance.

A written statement from those charged with governance acknowledging their responsibilities in relation to the financial statements and statement of performance is

³ Paragraph 10 of Australian Auditing Standard ASA 210: 'Agreeing the Terms of the Audit Engagement'

required. Therefore, it is requested that an acknowledgement of responsibilities is signed and returned to the Audit Office by those charged with governance when there is a change to those charged with governance personnel or a significant change to the functions of the audited entity.

C. RESPONSIBILITIES OF THE AUDIT OFFICE

The Audit Office is responsible for:

- conducting the audit of the financial statements in accordance with Australian Auditing Standards;
- conducting the limited assurance engagement for the statement of performance in accordance with the Standard on Assurance Engagements ASAE 3000: 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information';
- maintaining independence in accordance with Australian Auditing Standards;
- providing assurance in relation to whether the financial statements and statement of performance are free from material misstatements or omissions, whether caused by error or fraud;
- communicating openly with the audited entity and reporting any uncorrected misstatements and omissions;
- expressing an independent opinion on the financial statements and conclusion on the statement of performance;
- providing an audit management report where significant matters, including significant deficiencies in internal control, governance or reporting arrangements are identified; and
- assessing the going concern basis of accounting used in the preparation of the financial statements. Where material uncertainty exists which casts significant doubt on the appropriateness of using the going concern basis of accounting, the Audit Office is required to draw attention in the auditor's report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, the audit opinion is to be modified. The conclusions on the going concern basis of accounting are up to the date of the auditor's report.

D. AUDIT APPROACH

D.1 Assessment of the Risks of Material Misstatement

Australian Auditing Standards require the Audit Office to identify and assess the risks of material misstatement, whether due to fraud or error, by obtaining an understanding of the audited entity and its environment, including the internal control environment. This provides the basis for designing and implementing responses to the assessed risks of

material misstatement including the Audit Office's ability to rely on the audited entity's internal controls⁴.

The Audit Office's assessment of the control environment includes a consideration of the:

- financial reporting arrangements implemented by the audited entity;
- accounting policies selected and used by the audited entity to prepare its financial statements;
- processes used by the audited entity to measure the results for its accountability indicators disclosed in its statement of performance;
- communication and enforcement of integrity and ethical values in the audited entity;
- objectives of the audited entity and its related operational and fraud risks;
- organisational structure of the audited entity;
- effectiveness of human resources policies and practices within the audited entity;
- internal controls implemented by the audited entity;
- effectiveness of arrangements implemented by the audited entity to manage its risks including its fraud risks;
- role and effectiveness of senior management and where relevant, audit committees and other key committees of the audited entity; and
- information technology structure and governance implemented by the audited entity.

This assessment significantly influences the nature, extent and timing of testing procedures to be performed by the Audit Office in forming an opinion on the financial statements and conclusion on the statement of performance.

D.2 Audit Adjustments and Unadjusted Audit Differences

Under Australian Auditing Standards⁵, misstatements or omissions are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements or statement of performance.

When assessing misstatements or omissions, the Audit Office will consider their materiality at an overall level and in relation to individually reported amounts and disclosures. The materiality of misstatements or omissions is also influenced by other considerations such as legislative requirements.

⁴ Paragraphs 28 to 34 of Australian Auditing Standard ASA 315: 'Identifying and Assessing the Risks of Material Misstatement'.

⁵ Paragraphs 10 to 13 of Australian Auditing Standard ASA 450: 'Evaluation of Misstatements Identified during the Audit'.

The Audit Office will:

- assess the materiality of any misstatements or omissions identified during the audit of the financial statements in accordance with the auditing standards;
- assess the materiality of any misstatements or omissions identified during the limited assurance engagement for the statement of performance in accordance with the Standard on Assurance Engagements ASAE 3000: 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information';
- recommend that the audited entity correct its financial statements or statement of performance where the Audit Office identifies material misstatements or omissions;
- report details of significant corrected and uncorrected misstatements or omissions to the audited entity; and
- seek written representations from the audited entity that the combined impact of any uncorrected misstatements is immaterial to the financial statements or statement of performance.

D.3 Use of Experts

The audited entity, where relevant, may use experts in fields other than accounting (e.g. actuaries, taxation experts, valuers or legal practitioners) to prepare its financial statements when it does not have the internal expertise to correctly account for some transactions.

Where the audited entity uses an expert, Australian Auditing Standards⁶ require the Audit Office to assess whether the information prepared by the experts (e.g. actuarial assessments, tax calculations, valuations, legal interpretations) can be used as audit evidence.

The Audit Office strongly recommends that the audited entity provide written instructions to its experts. Providing a draft of these written instructions to the Audit Office to review prior to the expert commencing work will assist in the Audit Office determining whether it will need to engage its own expert.

The Audit Office needs to consider the significance of the expert's work on the financial statements and:

- evaluate the competence, capabilities and objectivity of the expert;
- obtain an understanding of the work of that expert; and
- evaluate the appropriateness of the expert's work as audit evidence.

The Audit Office will engage its own external independent expert to assist with its review of the work of the audited entity's expert if the Audit Office assesses that it does not have

⁶ Paragraph 8 of Australian Auditing Standard ASA 500: 'Audit Evidence'.

sufficient internal expertise to properly perform this review. This is typically when the work of the audited entity's expert is complex, requires specialist skills or knowledge and has a significant impact on the financial results of the audited entity.

Similar to the work performed by an auditor, the work performed by the Audit Office's expert involves evaluating the work performed by the audited entity's expert, including assessing the appropriateness of the methods, judgements and assumptions to provide independent assurance that the relevant balances and disclosures are free from material misstatements. It does not involve reperforming all work performed by the audited entity's expert.

D.4 Accounting Advice

Where the audited entity assesses that it does not have sufficient internal expertise to correctly implement new or revised accounting standards or account for significant complex arrangements or transactions, the audited entity may decide to obtain external specialist accounting advice.

As the Audit Office must be independent of the processes implemented by the audited entity to prepare its financial statements, the Audit Office is not able to jointly seek advice on these arrangements with the audited entity.

The Audit Office strongly recommends that the audited entity provide the draft written instructions to the Audit Office for review before they are finalised and issued to the external accounting specialist. The Audit Office will provide suggestions on these instructions where required and deemed appropriate.

The Audit Office may obtain its own external specialist accounting advice to assist with its review of the work of the audited entity's advice if the:

- Audit Office assesses that it does not have sufficient internal expertise;
- transactions and arrangements are significant and complex; or will have a significant financial impact over several years;
- audited entity has not provided the draft written instructions to the Audit Office for review before they are finalised and issued to the external accounting specialist; and
- Office is not adequately consulted, or feedback provided by the Audit Office is not sufficiently addressed, before finalising advice of the audited entity.

In any event, the Audit Office will review the final instructions provided by the audited entity and the final advice provided by the external accounting specialist engaged by the audited entity. Any costs incurred by the Audit Office for accounting advice will be recovered from the audited entity.

D.5 Internal Audit

D.5.1 Use of Internal Audit Work

To complete the audit efficiently and avoid duplication of effort, the Audit Office will consider using the work of the audited entity's internal audit if any, where it is relevant to the audit.

The Audit Office assesses the extent of reliance that can be placed on internal audit work. The extent of reliance will be subject to the assessment of the quality and independence of work performed as well as the availability of reports and supporting internal audit workpapers.

If the Audit Office decides to rely on internal audit work, then the Audit Office is required to assess its quality by testing some of the work undertaken⁷.

D.5.2 Attendance at Audit Committee Meetings

Audit Office representatives will attend meetings of audit committees, if any, of the audited entity as 'observers' when requested to do so.

The Audit Office appreciates that members of such committees will seek information and views from its representatives. While these representatives will attempt to provide useful information to those committees, they cannot speak for the Auditor-General or Audit Office. If the committees wish to obtain a view from the Auditor-General or Audit Office, they should write to the Auditor-General and request this information.

Audit Office representatives will endeavour to attend all meetings either in person or remotely, but there will be occasions where it will not be possible to do so.

E. AUDIT COMMUNICATION AND REPORTING

E.1 Audit Close Report on the Financial Statements

The Audit Office is required by Australian Auditing Standards⁸ to communicate significant:

- qualitative aspects of the financial statements, such as, the accounting policies, accounting estimates, judgements and disclosures;
- difficulties encountered during the audit;
- matters arising from the audit that were discussed or subject to correspondence with management;
- corrected and uncorrected misstatements or omissions; and

⁷ Paragraphs 21 to 25 of Australian Auditing Standard ASA 610: 'Using the Work of Internal Auditors'.

⁸ Paragraph 16 of Australian Auditing Standard ASA 260: 'Communication with Those Charged with Governance'.

- other matters arising from the audit related to the oversight of financial reporting processes.

Details of these matters will be communicated in an Audit Close Report provided to those charged with governance of the audited entity before the auditor's report on the financial statements is issued.

E.2 Auditor's Reports

The Audit Office is required to provide:

- an auditor's report on the financial statements of the audited entity. An unmodified auditor's report can only be provided when the Auditor-General concludes that the financial statements comply with applicable Australian Accounting Standards, and present a view of the audited entity that is materially consistent with the Audit Office's understanding of its financial position, operations and cash flows; and
- a limited assurance report on the statement of performance of the audited entity. An unmodified report can only be provided when the Auditor-General concludes that nothing has come to their attention to indicate the results of the accountability indicators reported in the statement of performance are not in agreement with the audited entity's records or do not fairly reflect, in all material respects, the performance of the audited entity, in accordance with the *Financial Management Act 1996*.

E.3 Audit Management Report

The Audit Office is required by Australian Auditing Standards⁹ to communicate significant matters identified during an audit, including any deficiencies in internal control, to those charged with the governance of the audited entity.

These significant matters (audit findings) will be reported in an Audit Management Report which will provide details of the:

- audit findings and associated recommendations along with any management comments provided by the audited entity; and
- progress made by the audited entity in addressing previously reported audit findings.

The Audit Management Report only includes significant matters that have come to the attention of the Audit Office during its work and should not be regarded as a comprehensive statement of all matters that may exist.

⁹ Australian Auditing Standards ASA 260: 'Communication with Those Charged with Governance' and ASA 265: 'Communicating Deficiencies in Internal Control to Those Charged with Governance and Management'.

E.4 Reporting to the ACT Legislative Assembly

The Audit Office provides a report on the overall results of its financial audit program to the ACT Legislative Assembly. Any matter considered by the Auditor-General to be of interest to the ACT Legislative Assembly may be included in this report.

Matters of interest may include information such as the results of audits, corrected and uncorrected misstatements, audit management report findings and the Audit Office's assessment of the quality and timeliness of the financial statements and statements of performance.

The criteria used by the Audit Office to assess the quality of the financial statements and statements of performance submitted for audit can be obtained from the Audit Office's website (<https://www.audit.act.gov.au/audit-services>).

F. ANNUAL REPORTING

F.1 Review of Accompanying Information

Where the audited entity includes financial statements and statement of performance in their annual report, the Audit Office is required by Australian Auditing Standards¹⁰ to check that the information which accompanies the financial statements and statement of performance is materially consistent with the financial statements and statement of performance.

To complete this review, the Audit Office requests that a draft copy of the annual report of the audited entity be provided before the auditor's report on the financial statements and limited assurance report on the statement of performance are issued. If the draft copy of the annual report is unavailable, then the Audit Office requests a copy be provided as soon as it is available.

F.2 Review of Published Versions

Where the audited entity is required to table its annual report in the ACT Legislative Assembly on a date notified under the *Annual Reports (Government Agencies) Act 2004*, the entity is also required to publish the annual report on its website the same day the printed version of the report is tabled in the ACT Legislative Assembly.

The Audit Office will review the printed and electronic versions of the annual report to verify that the financial statements and statement of performance made available to the public are identical to those on which the auditor's report on the financial statements and limited assurance report on the statement of performance were issued. Any discrepancies identified during this review will be promptly reported to the audited entity.

¹⁰ Paragraphs 13 to 15 of Australian Auditing Standard ASA 720: 'The Auditor's Responsibilities Relating to Other Information'.

G. REMOTE WORK AND ACCOMMODATION

The Audit Office has a hybrid working arrangement which allows Audit Office staff to complete most of the audit remotely. Where necessary, staff may attend the audited entity's premises and such arrangements will be agreed in advance. In the event staff do need to attend the premises, the audited entity must provide the audit team with accommodation that meets relevant work health and safety requirements under the *Work Health and Safety Act 2011*.

H. FEEDBACK

The Audit Office is committed to obtaining and responding to feedback received on the audit. The Audit Office would appreciate if any feedback on the audit process is promptly communicated to senior audit staff as matters are identified during the audit so that any corrective action is implemented prior to the completion of the audit. In addition, the Audit Office will issue a feedback form, to those charged with governance of the audited entity following the completion of the audit with a view to receive more formal feedback on the audit.