

GS 022
(June 2015)

Guidance Statement GS 022

Grant Acquittals and Multi-Scope Engagements

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

Draft

DISCLAIMER

This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

This Guidance Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Contact Details

Auditing and Assurance Standards Board
Level 7, 600 Bourke Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204, Collins Street West
Melbourne Victoria 8007
AUSTRALIA

Draft

COPYRIGHT

© 2015 Auditing and Assurance Standards Board (AUASB). The text, graphics and layout of this Guidance Statement are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source as being the AUASB.

Requests and enquiries concerning reproduction and rights for commercial purposes should be addressed to the Executive Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to enquiries@auasb.gov.au. Otherwise, no part of this Guidance Statement may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

ISSN 1833-7600

Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on certain procedural, entity or industry specific matters related to the application of AUASB Standards.

Guidance Statements are designed to provide assistance to auditors and assurance practitioners to assist them in fulfilling the objective(s) of the audit, other assurance engagement or non-assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of specific AUASB Standards; 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, or non-assurance engagement. Further, Guidance Statements do not establish or extend the requirements under existing AUASB Standards.

Guidance Statement GS 022 *Grant Acquisitions and Multi-Scope Engagements* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standards and auditors and assurance practitioners are required to comply with the relevant AUASB Standards when conducting an audit, other assurance engagement or non-assurance engagement..

CONTENTS

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application	1-2
Issuance Date	3
Introduction	4-6
Introduction	7-22
Definitions	23-24
Summary of the Auditor's Approach to a SSGA or and a MSE	1-26
Addressing Common Practical Application Issues	27-32
A. Unclear Engagement Mandates	33-42
B. Subject Matter(s) Not Able to be Assured, or Difficult to be Assured	43-48
C. Obtaining Evidence from Third Parties	49-50
D. Determining Reporting Responsibilities	51-65
E. Prescribed Reporting	66-71
F. Prescribed Scopes and/or Procedures	72-77
G. Performing SSGA and MSE concurrently with the Statutory Audit	78-83
H. SSGA or MSE Reporting Periods Differing from the Entity's Financial Reporting Period	84-88
I. Performing SSGA or MSE when not the Auditor of the Entity's Annual Financial Report	89-91
J. Setting Materiality	92-1
K. Cost Allocations	106-110
L. Substantive Procedures (Assurance Engagements)	111
M. Concluding and Reporting	112-127
Appendix 1: Summary	
Appendix 2: Elements of Assurance and Non-Assurance Engagements	
Appendix 3: Example of Multi-Scope Engagements	
Appendix 4: Example of an Engagement Letter for a MSE	
Appendix 5: Example of a Representation Letter for a MSE	
Appendix 6: Example Auditor's Reports – MSE (Not Prescribed)	
Appendix 7: Considerations - Prescribed Auditor's Reports	
Appendix 8: Example Auditor's Review Report – MSE (Other Reporting Responsibilities)	
Appendix 9: Intentionally blank for the time being	
Appendix 10: Intentionally blank for the time being	
Appendix 11: Charities and Not-For-Profit	

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 022 *Grant Acquittals and Multi-Scope 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; and related services engagements.

This Guidance Statement provides guidance to assist the auditor/assurance practitioner to fulfil the objectives of the audit, assurance engagement or non-assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor/assurance practitioner exercises professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 022

Grant Acquittals and Multi-Scope Engagements

Application

1. This Guidance Statement (GS) applies to auditors and other independent assurance practitioners¹, referred to as the “auditor” in this GS, when the engagement comprises:
 - (a) A single subject² grant acquittal³ (SSGA) achieved through a single level of assurance (*reasonable or limited*) ; or
 - (b) A multi-scope engagement (MSE), which may include a grant acquittal, when the terms of an engagement require the auditor to address one or more of the following sections of the engagement:
 - (i) More than one subject matter.
 - (ii) More than one level of assurance.
 - (iii) An engagement comprising both assurance and agreed-upon procedures (where no assurance is provided).
2. Engagements described in paragraph 1(b) necessitate compliance with the requirements of different reporting frameworks and different AUASB Standards; and may therefore involve:
 - (a) Evaluation against different criteria, including reporting frameworks;
 - (b) The auditor developing a tailored *single-form* multi-scope auditor’s report; and/or
 - (c) Reporting requirements prescribed by regulators or other relevant parties.

Issuance Date

3. This Guidance Statement is issued by the Auditing and Assurance Standards Board (AUASB) on 30 June 2015.

Introduction

Objective

4. The purpose of this GS is to assist auditors in exercising professional judgement in applying the AUASB Standards to a selection of common practical application issues (see Table 1), which may arise in either a SSGA or a MSE.

¹ This Guidance Statement is not intended for use by internal auditors, whether employed or engaged by an entity.

² Financial performance and financial position, or compliance with requirements, are each an example of a single subject matter.

³ See definitions at paragraph 23(a).

5. **Table 1:** Common Practical Application Issues Addressed in this GS

	Issues	Paragraphs
A	Clarifying engagement mandates that are unclear and/or defined in out-dated terms.	33-42
B	Addressing engagements where the required scope includes a subject matter(s) that is not able to be assured, or is difficult to be assured.	43-48
C	Obtaining evidence when an entity delegates tasks to a third party.	49-50
D	Determining the auditor's reporting responsibilities and identifying users of the auditor's report	51-65
E	Addressing prescribed reporting, including where requirements may differ from AUASB Standards.	66-71
F	Addressing prescribed scopes and/or procedures.	72-77
G	Performing a SSGA or a MSE concurrently with the audit of a general purpose financial report (GPFR) or a special purpose financial report (SPFR).	78-83
H	Determining the extent of statutory work, if any, that can be used in the performance of a SSGA or a MSE, when the SSGA or MSE reporting periods differ from the statutory audit.	84-88
I	Planning, performing and reporting on a SSGA or a MSE when <i>not</i> the auditor of the entity's annual financial report.	89-91
J	Setting materiality levels.	92-105
K	Auditing or reviewing overhead, labour cost and other expense allocations in a grant acquittal, including the sufficiency and appropriateness of audit/review evidence.	106-110
L	Determining the nature and extent of substantive procedures, including the use of sampling.	111
M	Concluding and reporting appropriately.	112-127

6. Detailed guidance on these issues is provided at the paragraphs references above and in the Appendices.

The Nature of Engagements – Grant Acquittals

7. A “grant acquittal” is the term used where there is a requirement, generally arising pursuant to a grant agreement, to conduct an audit, a review or agreed-upon procedures and can relate to a single-subject matter or multiple subject matters.
8. A grant acquittal as described in paragraph 1(a), is where the auditor is required to report a single level of assurance on *only* one subject matter. Examples of “subject matter information” that relate to single-subject matters include:
- (a) A statement of grant income and expenditure made by the grant recipient.

- (b) A statement of compliance with the terms of the grant agreement made by the grant recipient.
 - (c) A statement with respect to the design and operating effectiveness of internal controls relating to grant monies, made by the grant recipient.
9. Ordinarily, the applicable AUASB Standard for such single subject engagements is easily identified. For example, the relevant AUASB Standards for the examples listed at paragraph 8 are:
- (a) A statement of grant income and expenditure would be audited and reported on in accordance with ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.
 - (b) A compliance statement would be audited and reported on in accordance with ASAE 3100 *Compliance Engagements*.
 - (c) A statement on controls would be audited and reported on in accordance with the requirements of ASAE 3150 *Assurance Engagements on Controls*.
10. A grant acquittal can also be a MSE as described in paragraphs 1(b) and 2.

The Nature of Engagements - Multi-scope

11. For purposes of this GS, where *any* engagement, including a grant acquittal, comprises the elements described in paragraphs 1(b) and 2, it is a “multi-scope engagement”.
12. Appendix 2 and the AUASB [Framework for Assurance Engagements](#) provide information on the nature of assurance and non-assurance engagements.
13. Examples of a MSE include:
- (a) A common grant acquittal where the grant agreement might call for independent assurance over historical financial information, such as a statement of income and expenditure statement, *as well as* assurance over compliance with the terms of the grant agreement.
 - (b) A special purpose audit where management requests the auditor to audit the cash statement of the company’s social club and the related internal controls, agree employee leave taken to employee records (an agreed-upon procedure) and provide limited assurance (a review) as to whether leave balances are calculated in accordance with corporate policy.
 - (c) The requirements of the Australian Taxation Office in relation to self-managed superannuation funds – where reasonable assurance is given over historical financial information and over compliance with legislation over a period of time. [See AUASB Guidance Statement, GS 009 *Auditing Self-Managed Superannuation Funds*]
 - (d) An Annual Prudential Reporting Engagement undertaken pursuant to APRA Prudential Standard LPS 310 *Audit and Related Matters* - where the Regulator requires reasonable assurance over the annual return and limited assurance over the existence of, and compliance with, internal controls.⁴
 - (e) A financial licensee’s obligations to lodge an annual report with ASIC – where the Regulator requires, inter alia, reasonable assurance over financial information and the operation of internal controls; limited assurance over statements made by the licensee; and a mixture of reasonable and limited assurance over compliance (over a period of time) with the requirements of the relevant Class Orders. In addition, the Regulator

⁴ See AUASB Guidance Statement, GS 017 *Prudential Reporting Requirements for Auditors of a Life Company*.

prescribes the form and content of the auditor's report (Form FS71). [See AUASB Guidance Statement, GS 003 *Audit and Review Requirements for Australian Financial Services Licensees under the Corporations Act 2001*]

14. Appendix 3 provides further information about these examples.

Specific Issues

15. The AUASB recognises that SSGA and MSE may give rise to specific issues, including:
- (a) Determining which AUASB Standards and requirements are relevant, and how to apply them.
 - (b) Planning and performing the engagement effectively and efficiently to address multiple objectives.
 - (c) Reporting appropriately in compliance with:
 - (i) Relevant AUASB Standards; and
 - (ii) Engagement mandates.
 - (d) Demands for the use of prescribed auditor's reports that are not in accordance with the AUASB frameworks.
 - (e) Difficulties in conducting a MSE that comprises *assurance*, where professional judgement is exercised, and *agreed-upon procedures*, where no professional judgement is exercised.
16. Reporting appropriately may cause particular difficulties when the auditor seeks to combine statements, opinions, conclusions and sometimes factual findings in a single tailored auditor's report. [See paragraph 51 onwards.]

AUASB Standards

17. This GS does not summarise the requirements and approaches contained in the AUASB Standards - it focusses on common practical application issues – see Table 1.
18. In conducting a SSGA or a MSE, the auditor is required to comply with the relevant requirements in (all) the relevant AUASB Standards. The auditor's understanding of the composition of, and user requirements, in the engagement is necessary in determining the relevant AUASB Standards.
19. Although largely focussed on "reasonable assurance" engagements, the auditor exercises professional judgement in appropriately applying the relevant AUASB Standards and the principles described in this GS, where the engagement mandate is to:
- (a) Provide "limited assurance"; and/or
 - (b) Perform agreed-upon procedures.
20. The *relevant* requirements of the AUASB's Standards are to be applied, regardless of the entity's size, legal form, activities or the nature of the engagement, when:
- (a) The terms of the engagement require the auditor to comply with, and report in accordance with, AUASB Standards;
 - (b) A prescribed auditor's report requires the auditor to state that the engagement has been conducted in compliance with AUASB Standards; or
 - (c) A member of an Australian professional accounting body is required to comply with APES 210 *Conformity with Auditing and Assurance Standards*.

21. The AUASB's assurance Standards are to be applied in the context of the AUASB [*Framework for Assurance Engagements*](#).
22. Where the MSE comprises both assurance and non-assurance requirements, the relevant AUASB Auditing Standards, Standards on Reviews and Standards on Assurance are applied to the assurance sections of the MSE and the AUASB Standard on related services (ASRS 4400 *Agreed-upon Procedures Engagements to Report Factual Findings*) is applied to the non-assurance section(s) of the MSE. So too are any other applicable requirements that may exist in other Standards, legislation, regulation or contract.

Definitions

23. For the purposes of this GS the following words and phrases have the meanings attributed below:
- (a) A "grant acquittal" means a requirement of a funding agreement and is performed by the recipient of the funding (the responsible party). An acquittal can take a number of forms such as financial reports/statements, written reports, documentation of activities performed and attestations/declarations by the funding recipient. Some funding agreements require independent assurance in relation to the acquittal, or parts thereof. In this GS, "grant acquittal" denotes the auditor's engagement under the funding agreement.
 - (b) "Mandate" means the requirement, documented or otherwise, for an independent auditor to conduct an audit, other assurance engagement, agreed-upon procedure or combination thereof. Mandates may be prescribed in legislation or regulation; or may be specified by contract or agreement.
 - (c) "Criteria" means the benchmarks used to measure or evaluate the underlying subject matter. An applicable financial reporting framework is an example of "criteria".
 - (d) "Prescribed report" means the form and/or content of the auditor's report is prescribed by a statutory authority, by the terms of a contract or by other applicable mandate.
 - (e) "Prescribed procedures" means procedures that are to be performed by the auditor in accordance with the prescribed requirements of a statutory authority, a contract or other applicable mandate.
 - (f) The term "subject matter information" is used to mean the outcome of the measurement or evaluation of an underlying subject matter against the relevant criteria. [Examples include financial reports, compliance plans and attestations/declarations by responsible parties]
 - (g) Engagement risk is the risk of expressing inappropriate opinions and/or conclusions when the subject matter is materially misstated, including when the subject matter has material deficiencies or deviations or is materially non-compliant.
24. The meanings of other words and phrases used in this GS are those included in the AUASB pronouncements and which are also reproduced in the *AUASB Glossary*.

Summary of the Auditor's Approach to a SSGA and a MSE

25. The fundamental principles and concepts employed in all audits and other engagements are to be applied equally to a SSGA and a MSE. For example:
- (a) The exercise of professional judgement and professional scepticism;
 - (b) Compliance with quality control and ethical requirements;
 - (c) Appropriateness of subject matter and the existence of suitable criteria; and

- (d) The concepts of auditability, materiality, risk, assertions, evidence, assurance, documentation etc.
26. To illustrate the progressive approach to be adopted in conducting a SSGA and a MSE, Table 2 broadly summarises the main phases and steps in an assurance engagement under the AUASB Standards.

Table 2: Broad Summary of the Main Phases and Steps in a SSGA and a MSE in an Assurance Engagement

Main Phases	Steps in an Assurance Engagement	Documentation and Quality Control ⁵
Accepting	<ul style="list-style-type: none"> Firm capabilities and ethical requirements, including independence Determining the acceptability of the engagement and the client relationship Determining preconditions for the assurance engagement and agreeing the terms Establishing engagement objectives [subject matter(s); level(s) of assurance; and reporting] 	<p style="text-align: center;">↕</p> <p>All phases of the Engagement are: <i>Documented in accordance with the requirements of the relevant AUASB Standards;</i> <i>and</i> <i>Subject to quality control policies and procedures that comply with the requirements of the relevant AUASB Standards</i></p> <p style="text-align: center;">↕</p>
Planning	<ul style="list-style-type: none"> Understanding the entity to: <ul style="list-style-type: none"> identify and assess risks of material misstatement/non-compliance; set materiality; and develop the overall strategy and plan the detailed work 	
Performing	<ul style="list-style-type: none"> Implementing the planned approach to obtain sufficient appropriate evidence Evaluating evidence obtained 	
Reporting	<ul style="list-style-type: none"> Forming conclusions Reporting [expressing the overall conclusion(s)] 	

For specific details of the approach and steps involved in an assurance engagement, refer to the relevant [AUASB Standards](#) - Australian Auditing Standards, Standards on Review Engagements and Standards on Assurance Engagements.

Addressing Common Practical Application Issues

Introduction

27. This section of GS 022 provides guidance to auditors on addressing the common practical application issues that commonly arise in SSGA and MSE - see Table 1.

⁵ Quality control and documentation requirements are found in the AUASB Standards comprising: the Australian Auditing Standards, Standards on Review Engagements, Standards on Assurance Engagements and Standards on Related Services. They include, but are not limited to, ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*; ASA 230 *Audit Documentation*; ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*; ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

Overall Strategy for Responding to Issues

28. The most effective approach auditors can adopt to address practical application issues regarding a SSGA and a MSE, is comprehensive planning through:
- (a) Considering separately the engagement mandates, user needs and objectives for each of the different sections of the engagement in order to clearly identify the distinct scoping requirements and relevant AUASB Standards [see Appendix 9];
 - (b) Communicating with relevant parties to clarify uncertainties and resolve issues; and
 - (c) Establishing detailed strategies, plans and efficiencies *only* when there is clarity about each section of the engagement(s).

Preconditions

29. Under the AUASB Standards, the preconditions for each assurance aspect of the MSE engagement are established. In order to determine whether the preconditions for an assurance engagement are present, the auditor:
- (a) Determines whether the criteria are suitable and the financial reporting framework(s) acceptable; and
 - (b) Obtains agreement from management that it accepts responsibility for: the preparation of the entity's reports (subject matter information), internal control and providing the auditor with information and access to personnel.

Terms of Engagement

30. The practical issues discussed below are considered and resolved by the auditor in the context of the auditor's obligations under the AUASB Standards and relevant ethical standards⁶ to confirm the terms of the engagement in writing. Each SSGA and/or separate section of a MSE is included in the engagement letter.
31. The engagement letter is a contract which is required on all engagements conducted by an auditor.⁷ The requirement for an engagement letter is not conditional on the timing of appointment; clarity of mandates and reporting requirements; or the level of fees and costs. However, where law or regulation prescribes the terms of engagement in sufficient detail; and management acknowledges and understands its responsibilities, the auditor need not record the terms in a written agreement.
32. Appendix 4 provides examples of MSE engagement letters.

Practical Issues and Guidance

A. Unclear Engagement Mandates [Ref: Table 1]

33. The key to an effective and efficient approach is for the auditor to think of each SSGA and/or section of the MSE as a separate engagement in its own right and therefore requiring its own planning, performance and discrete file, or section of a file, containing supporting evidence.
34. It is not uncommon for an entity to request a SSGA or a MSE without proper articulation of the engagement requirements. Auditors seek to clarify the requirements, purpose and other

⁶ See ASA 102, *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

⁷ Requirements to agree the terms of engagements are found in:

- The AUASB Standards comprising: the Australian Auditing Standards, Standards on Review Engagements, Standards on Assurance Engagements and Standards on Related Services, ASA 210 *Agreeing the Terms of Audit Engagements*, ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*, ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity*, ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*; and
- APES 305 *Terms of Engagement*, issued by the Accounting Professional and Ethical Standards Board.

relevant preliminary details, for each SSGA or discrete section of the MSE prior to accepting the engagement. The auditor's engagement objectives and responsibilities can only be apparent when the engagement mandates are properly understood.

35. The auditor obtains a thorough understanding of all mandates, establishes whether the preconditions are present, management's (the responsible party's) responsibilities and broad engagement scope/objectives before accepting the engagement and agreeing to the terms in writing and before proceeding with the engagement.
36. Of particular importance for the auditor, is clarity about the suitability of criteria and the acceptability of the reporting framework, the auditor's assessment of the acceptability of that framework and management's acceptance of its responsibility to report under that framework. As auditors do not introduce new information about the entity in the auditor's report, it is important for management to disclose the applicable reporting framework, particularly when it is a special purpose framework.

For example: Management is responsible for an accounting policies note to accompany a grant income and expenditure statement (e.g. whether a cash or accruals basis of accounting has been used). Such disclosure may be additional to a prescribed or recommended subject matter report.

37. It is not uncommon for an entity to approach the auditor of the entity's financial report at the completion of that audit with a request to conduct a SSGA or MSE. Regardless of the timing of such a request, the auditor needs to obtain a clear understanding of the mandate(s) and objectives of the SSGA or MSE and to ensure the terms of the engagement are agreed to in writing.
38. In obtaining that understanding, auditors are mindful of the threats to effectiveness and efficiency in conducting the engagement as well as potential non-compliance with AUASB Standards. Planning and performing assurance procedures, and agreed-upon procedures if applicable, are undertaken with an appropriate understanding of the various mandates directing the engagement and establishing that the relevant preconditions required by the AUASB Standards are present.
39. The expected reporting requirements or available reporting options of the SSGA or MSE are an important part of understanding the engagement mandates. See paragraphs 51-78 for further discussion on reporting.
40. Where engagement mandates are defined in out-dated terms, such as is the case in some legislation, regulation or long-standing contracts, the auditor may communicate with the relevant regulator or parties to the contract (the users). The auditor's objective is to clarify user expectations regarding the engagement scope and reporting requirements. Such clarification reconciles out-dated terms with current AUASB frameworks. The auditor may:
- (a) Determine that an "Other Matter" paragraph in the auditor's report would be an appropriate way to communicate changes in terminology from that used in the engagement mandate to that used in the AUASB Standards.
 - (b) Seek legal advice and when appropriate and possibly seek amendment to the terms of the engagement.
41. The auditor reconciles user expectations with the auditor's capabilities under the legislative environment and AUASB Standards prevailing at the time. In some circumstances, it may be necessary for the auditor to inform users of any relevant restrictions imposed on the auditor so as to reach agreement on the auditor's responsibilities regarding the engagement. In such cases, it may be appropriate for the auditor to include in the auditor's report, additional

explanatory detail regarding the restriction(s). An “Other Matter” paragraph may be used for such additional material.⁸

42. When an auditor is not confident of meeting user expectations or delivering appropriately against the engagement mandate; or is unable to resolve the issue through other means, including additional explanation in the auditor’s report, the auditor declines the engagement unless prevented from doing so by law or regulation. Refer paragraphs 48 and 70 for options when the auditor is not able to decline the engagement.

B. Subject Matter(s) Not Able to be Assured, or Difficult to be Assured [Ref: Table 1]

43. In certain circumstances, an engagement mandate may seek assurance on a subject matter that is unable to be assured, or very difficult to be assured, such as an entity’s future ability to generate a specified level of unencumbered cash or its ability to fund a future project in part or whole. The auditor’s inability to provide assurance ordinarily arises because there is no appropriate subject matter or suitable criteria against which to measure or evaluate (see AUASB’s *Framework for Assurance Engagements*). Furthermore, the responsible party may not be required to provide subject information, such as an attestation statement (e.g. solvency declaration), to the auditor.

44. The auditor may consider:

- (a) Identifying the specific reasons why some or all of the engagement requirements are unable to be achieved.
- (b) Communicating with the relevant regulator or parties to the contract (the users) to determine the precise expectations of the users.
- (c) Communicating with the responsible party to confirm their responsibilities regarding the engagement and to understand their expectations and the subject matter information they intend to provide to the auditor.
- (d) Determining whether users would accept an alternative engagement. This may include, for example:

- (i) An agreed-upon procedure; or
- (ii) Assurance over an alternative subject matter.

For example: Although an auditor may be unable to assure an entity’s *future ability* to generate a specified level of unencumbered cash or fund a future project, the auditor could undertake a reasonable, or limited, assurance engagement over the *historical levels* of unencumbered cash and/or the *reasonableness* of the underlying assumptions used to determine the entity’s business plans, budgets and forecasts. This may be sufficient for the users to form their own conclusion as to the entity’s future abilities. Ordinarily, such assurance work would not necessitate a full audit of the entity’s previous or current financial report and would not constitute the provision of limited assurance over prospective information.

- (e) Exploring effective alternative solutions, including legal and legitimate options that may resolve the issue of dealing with matters that may be unable to be assured.
- (f) Evaluating whether:
 - (i) A disclaimer of opinion over certain subject matter is an appropriate option; or

⁸ See ASA 706, paragraph 8 for information on “Other Matter” paragraphs.

- (ii) Additional explanation in the auditor's report can mitigate possible misunderstanding as to what has *not* been assured and the reasons for the auditor's inability to assure the particular subject matter. [Additional explanation may be located in an "Other Matter" paragraph in the auditor's report.]
 - (g) When alternative arrangements are unable to be made, determining whether the auditor is able to decline the engagement under relevant laws/regulations.
- 45. In communicating with users, it would be necessary for the auditor to inform the relevant parties of the reasons why the auditor is unable to assure a particular subject matter. When a mutual understanding is achieved, the auditor may be able to reach agreement on the auditor's responsibilities regarding the SSGA or MSE and the effect on the auditor's report. Any such agreement is committed to writing so as to comply with standards and to avoid any misunderstanding.
- 46. If the auditor concludes that a disclaimer over specific subject matter or additional explanation in the auditor's report are necessary to comply with the requirements of relevant AUASB Standards, but is prohibited from doing so (say because of an inflexible prescribed reporting regime); or if permitted, are unable to adequately mitigate possible misunderstanding, the auditor does not include within the auditor's report that the audit has been conducted in accordance with (the relevant) AUASB Standards. [See paragraph 67]
- 47. When an auditor determines that the subject matter is not appropriate, the criteria is not suitable or the engagement does not have a rational purpose, the auditor declines the engagement, unless required by law or regulation to accept the engagement.
- 48. When in rare and exceptional circumstances, the auditor is prevented from any of the alternatives described in paragraph 44, and therefore effectively faces an inappropriate engagement, the auditor consults with relevant parties and when necessary seeks legal advice. When considered appropriate by the auditor, the auditor may:
 - (a) Issue a disclaimer of opinion on the basis of a limitation in the scope of the engagement.⁹
 - (b) Issue concurrently, a separate auditor's report to the user(s) that complies with the auditor's obligations under the AUASB Standards and refers to the prescribed report.
 - (c) Write separately to the users, referring to the auditor's report and setting out:
 - (i) The auditor's concerns, including the misleading nature of the prescribed auditor's report, the use of which is mandated;
 - (ii) The reasons for the auditor's predicament, particularly the reporting inconsistency with the auditor's responsibilities under the AUASB Standards and the relevant ethical requirements; and
 - (iii) If applicable, the auditor's inability to obtain evidence to the level of sufficiency and appropriateness considered necessary by the auditor to support the auditor's conclusion as required by the prescribed reporting format.

C. Obtaining Evidence from Third Parties [Ref: Table 1]

- 49. An entity may, in some cases, delegate to a third party some, or all, of the tasks which would be subject to the SSGA or MSE. For example, a portion of grant monies received may be used to engage a third party to perform procedures required under the grant agreement. Any such arrangements do not affect the requirements of the AUASB Standards or the underlying responsibilities of the auditor.

⁹ See ASA 705, paragraphs 9 and 10.

50. In the circumstances described in paragraph 49, the overriding issue for the auditor, is the ability to obtain sufficient appropriate evidence in order to conclude on each of the matters in the scope of the engagement. Table 3 outlines options that may be available to the auditor in different circumstances:

Table 3: Obtaining Evidence from a Third Party

Situation	Auditor's Response
The auditor is given access to the relevant records of the third party and provided with adequate explanations in relation to the work performed by the third party.	The auditor performs the procedures, and obtains adequate explanations, considered necessary by the auditor in order to obtain sufficient appropriate evidence to conclude.
The auditor is given access to the relevant working papers of the third party's auditor and provided with adequate explanations in relation to the work performed by the third party's auditor.	The auditor uses AUASB Guidance Statement, GS 011 <i>Third Party Access to Audit Working Papers</i> to obtain sufficient appropriate evidence with which to conclude.
Where applicable, the auditor is permitted to request the third party's auditor to perform the procedures considered necessary by the auditor; and to report thereon accordingly.	The auditor instructs the third party's auditor in accordance with the relevant AUASB Standard(s). For example, in the case of an audit of historical financial information, paragraph 2 of ASA 600 <i>Special Consideration—Audits of a Group Financial Report (Including the Work of Component Auditors)</i> , is applied, as appropriate, to obtain sufficient appropriate evidence with which to conclude.
The entity uses a service organisation and a report on controls under ASAE 3402 is available from the service organisation	The auditor complies with the requirements of ASA 402 <i>Audit Considerations Relating to an Entity Using a Service Organisation</i> in using the report issued by the service organisation's auditor
Sufficient appropriate audit evidence is not available.	The auditor considers the effect on the auditor's report.

D. Determining Reporting Responsibilities [Ref: Table 1]

51. An auditor's responsibilities and associated procedures, to obtain a clear understanding of reporting responsibilities for a SSGA or a MSE are no different from those in any other engagement. The auditor obtains an understanding of the auditor's reporting responsibilities at the accepting and planning stages of the engagement, including whether the auditor's report is prescribed or not prescribed.
52. The following guidance aims to illustrate the *principles* of reporting particularly when the auditor determines that issuance of a single-form auditor's report, incorporating the different sections of the MSE, is most effective and efficient in the circumstances of the specific engagement.

Overview

53. When reporting on a SSGA or a MSE, the auditor's objectives are the same as when reporting on other assurance engagements, namely to:

- (a) Form overall opinions and/or conclusions based on evaluation of conclusions drawn from evidence obtained.
 - (b) Express overall opinions and/or conclusions clearly in a report that also describes the basis for the opinions and/or conclusions.
 - (c) Reduce engagement risk to an appropriate level.
 - (d) Ensure the auditor's report complies with relevant AUASB Standards and other applicable reporting requirements, including when the auditor's report:
 - (i) Is modified (qualified opinion, adverse opinion, disclaimer of opinion or includes an emphasis of matter paragraph or other matter paragraph); and
 - (ii) Contains supplementary reporting information such as a detailed list of minor instances of the entity's non-compliance with specified regulation that have been identified by the auditor.
 - (e) Ensure that the auditor's report is not misleading in the context of the specific engagement circumstances.
54. In expressing opinions and conclusions, the auditor uses the appropriate form of expression in the context of the applicable reporting framework and the relevant AUASB Standards.
- For example: Where a SSGA or a MSE report comprises a special purpose financial report (SPFR) and an entity's attestation on compliance with legislation, regulation or the terms of a contract, the auditor conforms with the reporting requirements in ASA 700 and ASA 800 regarding the SPFR; and ASAE 3000 and ASAE 3100 regarding the compliance section.

Users

55. Concurrently with procedures to understand the engagement mandates, the auditor performs procedures to identify users of the entity's report(s) and the auditor's report(s). Identification of users assists the auditor to determine the nature (form) of the auditor's report(s), including:
- (a) Whether there is a requirement to alert users of the special purpose of the entity's report; and/or
 - (b) Whether to restrict distribution of the auditor's report.
56. In the case of a grant acquittal or other contractual arrangement, the users are ordinarily the parties to the grant agreement or other contract. The signatories to the agreement(s) and the parties they represent, should provide a clear indication of the users.
- For example: Where a grant is given to a company by a government department, the signature of the CEO, or other authorised staff, on the grant agreement, indicates that one group of users is the board of directors acting on behalf of the company that receives the grant. The signature of a government Department Head, authorised officer/delegate or notices within the funding agreement, indicate that the other user group is the government department providing the funds.
57. Where identification of users is not straightforward, the auditor discusses the matter with the party engaging the auditor. When such communication does not yield sufficient detail on identifying users, the auditor contacts the other party to the contractual arrangement or the regulator(s) responsible for each separate engagement mandate.
58. When communicating with users, the auditor considers whether it is appropriate to inform users that they do not "own" or "direct" the audit and that auditor independence is a fundamental concept of audit and assurance.

Reporting when the Auditor's Report(s) is not Prescribed

59. When the form and content of the auditor's report is *not* prescribed by the engagement mandate, the auditor complies with the reporting requirements of the relevant AUASB Standards. The auditor may choose to:
- (a) Provide multiple reports, separately for each subject matter and/or level of assurance;¹⁰
 - (b) Issue a single-form multi-scope report—i.e. a single-form report that identifies each different subject matter and level of assurance of the MSE; or
 - (c) A combination of (a) and (b). Table 4 illustrates this option where the auditor decides to issue a single-subject report addressing one subject matter *and* a single-form multi-scope auditor's report covering the remaining subject matters:

Table 4: Example of auditor reporting (see paragraph 59(c) above)

Subject Matters	Reporting under AUASB Standard
First Auditor's Report – single subject	
Audit of an historical financial report	Auditor's report in accordance with ASA 700 <i>Forming an Opinion and Reporting on a Financial Report</i> or ASA 800 <i>Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks</i> , as applicable
Second Auditor's Report – multi-scope	
Part A, audit of a single statement of grant income and expenditure	Report in accordance with ASA 805 <i>Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>
Part B, reasonable assurance on the entity's compliance with the terms of a grant agreement	Report in accordance with ASAE 3100 <i>Compliance Engagements</i>
Part C, limited assurance on a statement of employee numbers required under a grant agreement	Report in accordance with ASAE 3000 <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>

Examples of how the 2 auditor's reports described above might be presented are demonstrated in Appendix 6, Illustrations 2(a) and 2(b).

60. In choosing whether to issue multiple reports or a single-form report, the auditor considers:
- (a) any relevant requirements of the engagement mandate;
 - (b) user needs;
 - (c) the requirements of any other relevant standards; and
 - (d) reporting effectiveness and efficiency.

¹⁰ This GS does *not* address multiple auditor's reports that individually address different subject matters and/or levels of assurance—the auditor simply complies with the reporting requirements of each applicable AUASB Standard.

61. Where the auditor intends to issue a single-form MSE report, the auditor designs a unique report developed according to the circumstances, and which incorporates the reporting requirements of the relevant AUASB Standards as well as any reporting mandates, such as relevant requirements of a grant funding agreement.
62. In developing a unique single-form MSE report, the auditor seeks efficiency by avoiding repetition through blending similar reporting requirements when appropriate, but without blurring the different sections of the MSE.

For example: A single paragraph could be used to describe management's responsibilities for the various subject matters, rather than several, and in parts repetitive, paragraphs describing management's responsibilities for each subject matter.

Other Reporting Responsibilities

63. Auditors satisfy themselves as to whether there are any other reporting obligations under legal and regulatory requirements.
64. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the entity's relevant financial, or other, reports that, in the auditor's judgement, is relevant to the users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor considers use of an "Other Matter" paragraph in the auditor's report.¹¹
65. If the auditor addresses other reporting responsibilities that are in addition to the auditor's responsibilities under the AUASB Standards, the auditor considers use of a separate section of the report titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate.¹²

E. Prescribed Reporting [Ref: Table 1]

66. In some circumstances, the form and/or content of the auditor's report is prescribed and in some cases, may include a prohibition on modified opinions. In such cases, the auditor compares the prescribed report with the reporting requirements of the relevant AUASB Standards. This comparison, taken together with the auditor's ability, if any, to remedy any reporting issues, is an important part of the engagement acceptance procedures.
67. Although applicable to audits under the Australian Auditing Standards, the following extracts are consistent with requirements under ASAE 3000 and provide helpful guidance on the considerations to be applied regardless of which AUASB Standards apply:

- (a) Extract from ASA 210 *Agreeing the Terms of Audit Engagements*:¹³

In some cases, law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of the Australian Auditing Standards. In these circumstances, the auditor shall evaluate:

- (a) *Whether users might misunderstand the assurance obtained from the audit of the financial report and, if so,*
- (b) *Whether additional explanation in the auditor's report can mitigate possible misunderstanding.*

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless required by law or regulation to do so. An audit conducted in

¹¹ See ASA 706, paragraph 8.

¹² See ASA 700, paragraph 38.

¹³ See ASA 210, paragraph 21.

accordance with such law or regulation does not comply with Australian Auditing Standards. Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with Australian Auditing Standards.

- (b) Extract from ASA 700 *Forming an Opinion and Reporting on a Financial Report*:¹⁴

If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout or wording of the auditor's report, the auditor's report shall refer to Australian Auditing Standards only if the auditor's report includes, at a minimum, each of the following elements:

- (a) *A title;*
- (b) *An addressee, as required by the circumstances of the engagement;*
- (c) *An introductory paragraph that identifies the financial report audited;*
- (d) *A description of the responsibility of management (or other appropriate term, see paragraph 24 of this Auditing Standard) for the preparation of the financial report;*
- (e) *A description of the auditor's responsibility to express an opinion on the financial report and the scope of the audit, that includes:*
 - *A reference to Australian Auditing Standards and the law or regulation; and*
 - *A description of an audit in accordance with those Standards;*
- (f) *An opinion paragraph containing an expression of opinion on the financial report and a reference to the applicable financial reporting framework used to prepare the financial report (including identifying the jurisdiction of origin of the financial reporting framework that is not Australian Accounting Standards and, where applicable, Australian law or regulation);*
- (g) *The auditor's signature;*
- (h) *The date of the auditor's report; and*
- (i) *The auditor's address.*

68. When an auditor determines that the prescribed reporting requirements do not align with, or conform to, the requirements of the relevant AUASB Standards, the auditor, as appropriate:
- (a) Communicates with the relevant authority, individual or group, seeking agreement to amend the prescribed auditor's report such that it conforms to AUASB Standards.
 - (b) Issues an alternative report that complies with the requirements of the AUASB Standards. This option is considered especially when the auditor has experience with the relevant party having accepted such alternative auditor's reports in the past.
 - (c) Communicates any matters described in paragraph 67 above that may be deficient in the prescribed auditor's report, through an "Other Matter" paragraph.
69. Prescribed financial reporting formats may, for example, not include reference to management's responsibilities for the preparation of the entity's reports (financial, non-financial). In such cases, an "Other Matter" paragraph can be used to describe management's responsibilities. When the auditor is unable to redress issues with prescribed reporting

¹⁴ See ASA 700, paragraph 43.

requirements by appropriate application of the principles or procedures conveyed above, the auditor declines the engagement, unless required by law or regulation to accept the engagement.

70. When the auditor is not able to decline the engagement and is prevented from amending or adding to a prescribed auditor's report, the auditor has been prevented from exercising professional judgement as required by the AUASB Standards. Accordingly, the auditor consults with appropriate parties and when necessary seeks legal advice. When considered appropriate by the auditor, the auditor may, in the circumstances, be able to:
- (a) Issue a modified auditor's opinion or conclusion statement in accordance with the relevant AUASB Standards.
 - (b) Issue *concurrently* and preferably accompanying the prescribed auditor's report, a separate auditor's report to the user(s) that complies with the auditor's obligations under the AUASB Standards.
 - (c) Write separately to the user(s,) referring to the specific prescribed auditor's report and setting out:
 - (i) The auditor's concerns, including the misleading nature of the prescribed report;
 - (ii) The form and content of a report under the relevant AUASB Standards;
 - (iii) The reasons for the auditor's predicament, particularly the reporting inconsistency with the auditor's responsibilities under the AUASB Standards and relevant ethical requirements; and
 - (iv) If applicable, the auditor's inability to obtain evidence to the level of sufficiency and appropriateness considered necessary by the auditor to support the auditor's conclusion as required by the prescribed reporting format.
71. Appendix 7 provides further considerations relating to prescribed auditor's reports.

F. Prescribed Scopes and/or Procedures [Ref: Table 1]

72. In some SSGA or MSE, certain procedures and/or scopes may be prescribed by a relevant party, such as a regulator or the provider of grants.

Assurance

73. Prescribed procedures may be considered by the relevant party to be necessary to meet a specified assurance objective.

For example: In the audit guidance material¹⁵ issued by the Department of Health and Ageing, the Regulator sets out its expectations of the auditor and the information that auditors are expected to consider in the conduct of their audit.

74. When prescribed scopes and/or procedures are a prerequisite to a SSGA or MSE, the auditor:
- (a) Preserves the auditor's independence and professional judgement in determining the extent, timing and scope of audit procedures—a fundamental principle underpinning the value of independent assurance. This is achieved by the auditor determining whether the prescribed scopes and/or procedures:
 - (i) Will enable the auditor to obtain sufficient appropriate evidence to meet the *auditor's* objectives; or

¹⁵ See [Guide to Audit of the Approved Provider's Compliance with the Prudential Requirements for 2012-13](#)

- (ii) Will need to be incorporated into procedures determined by the auditor as necessary to meet the *auditor's* objectives; or
 - (iii) Are additional to the procedures determined by the auditor to be necessary to meet the *auditor's* objectives.
 - (b) Determines the auditor's reporting responsibilities, if any, in regard to the prescribed scopes and/or procedures.
 - (c) Assesses whether the auditor is reasonably confident that the auditor will be able to discharge their responsibilities regarding the prescribed scopes and/or procedures.
75. The auditor does not accept the engagement, unless required to by law or regulation, if the auditor is unable to meet the prescribed scopes and/or procedures. This situation may arise, for example, where the auditor's independence will be compromised, the prescribed scope is not able to be assured, or the prescribed procedures are unable to be performed.

Agreed-upon Procedures (no assurance)

76. Prescribed procedures, on the other hand, may not be considered by the relevant party as necessary to meet a specified *assurance* objective. Consequently, prescribed procedures are treated as agreed-upon procedures with factual findings reported accordingly. The auditor communicates this to the relevant party and ensures that the engagement letter correctly reflects how the prescribed procedures will be addressed by the auditor. In these circumstances, where the auditor intends to restructure a prescribed report, the auditor communicates this intention to the relevant parties.

Acceptance

77. Where the auditor is required by law or regulation to accept an engagement that the auditor would otherwise not accept, the auditor considers the guiding principles described at paragraphs 48 and 70.

G. Performing SSGA and MSE concurrently with the Statutory Audit [Ref: Table 1]

78. Auditors commonly receive a late request from the entity to perform a SSGA or a MSE, when they are conducting the statutory audit. The auditor then considers whether, and if so to what extent, audit work completed on the statutory audit can be applied to the SSGA or MSE.
79. When considering how to address the additional engagement, the auditor follows the requirements in the relevant AUASB Standards:
- (a) Acceptance – including preconditions, agreeing terms, additional fees and an engagement letter;
 - (b) Planning – including potential use of work completed for other purposes, such as the statutory audit;
 - (c) Performance – including a separate representation letter;¹⁶ and
 - (d) Reporting – including the form and content of the auditor's report(s).
80. Where any such engagements are identified at the acceptance stage of the financial report audit, the auditor considers the potential for concurrent work and plans accordingly.
81. As the mandates, objectives, users, reporting frameworks etc., differ for each distinct subject matter, so the detailed work plans will differ. It is only at the engagement planning stage where the auditor finalises the engagement strategy and detailed plans, that using work performed on one section of the engagement for use on another, can be *planned*.

¹⁶ See Appendix 5 for an example of a management representation letter for a MSE.

82. Using assurance procedures for multiple purposes can be achieved by appropriate planning, such as:

- (a) Arranging the scope of procedures in areas that are common to the overall engagement generally and using the evidence for multiple purposes.

For example: When the auditor undertakes procedures to “understand the business” and to “assess risk”, the auditor may design procedures, performed concurrently, that appropriately address the SSAGA and/or each of the distinct sections of the MSE. This approach enables the auditor to avoid returning unnecessarily to these planning stages.

- (b) Utilising the common practice of “dual-purpose” testing such as, substantive tests of detail that can also be used as evidence of the operating effectiveness of internal control.
- (c) Avoiding the double-handling of the entity’s records.

For example: The auditor may choose to:

- (i) Use the same records to concurrently obtain *different* sample selections to perform different procedures to achieve different objectives for different sections of the engagement.
- (ii) Combine into one work programme, several procedures that:
 - ◆ Utilise the *same* sample selections from the entity’s records.
 - ◆ Are designed to meet different substantive test objectives for different sections of the SSAGA or MSE.
 - ◆ Are to be performed concurrently.

83. Where the auditor decides to adopt a concurrent approach to meet differing engagement objectives, care is taken with, in particular:

- (a) Utilising materiality levels that are appropriate for each objective where work is performed simultaneously.

For example: To utilise a materiality level based on an entity’s annual financial statements as a whole would be inappropriate for performing tests of a specific type of expenditure in accordance with a grant contract. [See discussion on materiality at paragraph 92-105]

- (b) The nature of testing procedures that relate to the auditor’s specific objectives.

For example: The results of a substantive (representative) sample from a financial population that uses a statistical method driven by the cumulative monetary amount could not be a substitute for attribute sampling seeking pre-determined confidence rates regarding the performance of internal control.

- (c) Appropriate audit documentation supporting the different audit objectives, procedures, results and assessments. [See also paragraphs 87 - 88]

H. SSAGA or MSE Reporting Periods Differ from the Entity’s Financial Reporting Period

[Ref: Table 1]

84. The date of the annual financial report may differ from the relevant date for the other assurance requirements. This scenario does not prevent use, at least in part, of some evidence for the overlapping period; however, additional work would be necessary to achieve the planned approach for the other assurance requirements.

For example: Assuming the nature of the tests are appropriate to meet differing objectives, substantive tests performed in the annual statutory audit to (say) 30 June may be used in a SSGA or a MSE to (say) 30 September. The auditor extends the tests for the period 1 July to 30 September; however, the tests already performed in the statutory audit are efficiently used for two or more purposes.

85. When deciding on additional work to cover a period that extends beyond the work already performed, the auditor ordinarily considers matters such as:
- (a) Whether the objectives and procedures already performed are appropriate for the additional work;
 - (b) Any significant changes that have occurred in the subject matter since the previous work was completed;
 - (c) The need to update the auditor's risk assessment for the additional period, including any potential cut-off issues;
 - (d) The possibility and practicality of testing internal control in order to reduce substantive procedures for the extended period;
 - (e) Choosing the most appropriate substantive procedures – substantive analytical procedures versus tests of detail; and
 - (f) Other core considerations such as materiality levels and the availability of evidence.
86. Whenever the auditor seeks efficiencies through using work from other engagements, it is essential that the auditor determines that the work performed and the evaluation of that work is sufficient and appropriate to meet the objectives of the SSAG and/or each separate section of the MSE. Otherwise there will be a significant risk that the auditor will not obtain sufficient appropriate evidence to support each objective.

Documentation

87. Whenever leveraging work effort is achieved, the auditor determines that the engagement files contain appropriate documentation to support the conclusions on the SSGA and/or each distinct section of the MSE. It is not appropriate to assume that because evidence is documented in one file, or part of a file, that documentation requirements have been met for the SSGA and/or all sections of the MSE.
88. Cross referencing between files, or within the same file, may be appropriate but each file, or part of a file, should provide the requisite documentation to support the relevant conclusion. Cross-referencing or copying working papers contained in one file, or section of a file, for inclusion in another file, or part of a file, is an efficient documentation technique that enables each file, or section of a file, to be complete. Copied working papers should be properly labelled to clearly show each relevant section of the engagement, or engagement objective to which they apply. The working papers in each file, or part of a file, include evidence of review by a more senior person and, where applicable, evidence of quality assurance procedures having been performed.

I. Performing SSGA or MSE when *not* the Auditor of the Entity's Annual Financial Report [Ref: Table 1]

89. In the context of the approach outlined in Table 2, an auditor who is *not* the auditor of the entity's annual financial report pays particular attention to the "accepting" phase of the engagement.
90. This particular focus is because the auditor may have little or no knowledge of the entity or its environment, nor will the auditor have undertaken a (recent) risk assessment, all of which are required in an audit undertaken in accordance with the AUASB Standards.

91. The following points are intended as a prompt of some of the more important considerations that an auditor, who is not the auditor of the entity's annual financial report, may consider:
- (a) Firm Capabilities
 - (i) The partner's and team members' knowledge and experience relating to the proposed SSGA and MSE. In assessing this, the engagement mandates need to be thoroughly understood.
 - (ii) The firm's ability to comply with relevant laws, professional, ethical and technical Standards as well as any other requirements stipulated in the engagement mandates.
 - (iii) The firm's quality control policies and procedures at both firm and engagement levels.
 - (b) Engagement Acceptance and Client Relationship
 - (i) The rationale/purpose for the engagement.
 - (ii) Appropriate subject matter and suitable criteria.
 - (iii) Appropriate level of assurance in the circumstances.
 - (iv) The availability of information necessary to perform the engagement.
 - (v) The integrity of management and/or those charged with governance (TCWG).
 - (vi) Any restrictions or limitations in the scope of the engagement.
 - (vii) Any risks/threats to the auditor's reputation or compliance with relevant laws and standards. Particular attention is paid to "independence" and any prescribed reporting and/or prescribed scope/procedures.
 - (c) Objectives
 - (i) The auditor separates the engagement into its different sections for each level of assurance and each subject matter so as to obtain a clear understanding of the specific assurance and reporting objectives for each section.
 - (ii) Of particular importance is developing preliminary objectives and strategies on how to perform procedures to gain an understanding of the entity and its environment; and how to perform appropriate risk assessment procedures.
 - (d) Preconditions for the Assurance Engagement
 - (i) Determining whether the criteria, such as the financial reporting framework, to be applied by management, or TCWG, is/are acceptable/suitable (in relation to the mandate(s) and the intended users).
 - (ii) Obtaining agreement from management/TCWG, that they acknowledge their responsibilities for:
 - ◇ The preparation of reports in accordance with the relevant mandate(s);
 - ◇ For such internal control as management/TCWG determine is necessary to enable the preparation of the report(s) that are free from material misstatement; and
 - ◇ Providing the auditor with:
 - Access to all relevant information;

- Additional information as requested; and
 - Unrestricted access to personnel.
- (e) Agreeing the Terms of the Engagement
- (i) The auditor agrees the terms of engagement with management, or TCWG, as appropriate.
 - (ii) The terms of engagement are in writing, tailored to the circumstances, and comply with the requirements of the relevant AUASB Standards. The engagement letter clearly identifies the SSGA and the different sections of the MSE.
 - (iii) Without clarity about the SSGA and the exact sections of the MSE, including the related reporting, there is a significant risk of:
 - ◇ Misunderstanding between the auditor and management/TCWG; and
 - ◇ The engagement team performing the engagement either ineffectively (by not fulfilling the appropriate requirements); or *inefficiently* (by performing unnecessary procedures).
 - (iv) The various users of the entity's reports (other than general purpose financial reports) are identified in the engagement letter and consequently, the related auditor's report. This is particularly important where reporting is for a "special purpose", such as an application for a licence.
 - (v) An example of an engagement letter for a MSE is set out in Appendix 4.

J. Setting Materiality [Ref: Table 1]

92. The requirements and underlying concepts relating to materiality are found in the relevant AUASB Standards¹⁷ and they apply equally to a SSGA or a MSE.
93. In determining materiality levels, auditors exercise professional judgement by considering *qualitative* and *quantitative* factors, including reasonable expectations of issues that would likely influence the decisions of users.
94. For assurance purposes, materiality is determined in order to establish:
- (a) A tolerable level of misstatement, deficiency, deviation or non-compliance of the subject matter (which may be in the entity's reports);
 - (b) The scope of assurance work to be performed; and
 - (c) A reasonable basis for evaluating identified misstatements, deficiency, deviation or non-compliance.
95. Given the objectives of setting materiality levels described in paragraph 94, the auditor of a SSGA or MSE develops *separate* materiality levels for each of the sections of the engagement.

Example 1: Developing Separate Materiality Levels

The **entity** is required to report the following to a regulator:

- Its annual financial performance and position (a financial report/statement);

¹⁷ See ASA 320 *Materiality in Planning and Performing an Audit*; ASRE 2400; ASAE 3000; and ASAE 3100.

- Specified non-financial information in a prescribed format (a statistical return); and
- Its compliance with prudential standards (a compliance statement).

The **engagement team** may, for example, set materiality levels for this MSE, by adopting the following approach:

- (a) For *the financial report*, materiality would be set under ASA 320 in the same manner as any other audit of a financial report.
- (b) For *the statistical return*, the auditor may use multiple materiality levels by using each recorded information on the statistical return as the basis for setting materiality for that particular information, for example:

To obtain sufficient appropriate evidence concerning:

- (i) The number of employees recorded in the return, materiality might be set at an appropriate percentage of the recorded number of employees.
- (ii) The number of insurance policies written in the year, materiality might be set at an appropriate percentage of the recorded number of policies written.

In setting these differing materiality levels, the engagement partner takes into consideration qualitative and quantitative factors; and the risk of issuing an inappropriate report. The engagement partner is satisfied with the level of work done when opining that “...the statistical return (i.e. *all* its component parts) has been prepared, *in all material respects*, in accordance with...”

[See ASA 805 paragraphs 10 and A10-A14; and ASA 200 paragraph 2 (the auditor applies Australian Auditing Standards relevant to the audit as necessary in the circumstances of the engagement.)]

- (c) For *the entity’s compliance statement*, the auditor may judge that every item, and its component parts, reported by the entity in the statistical return, are material. Compliance may be a simple “yes” or “no” with *all* instances of non-compliance to be reported to the regulator by the auditor. [See paragraph 100 for further discussion and ASAE 3000 paragraphs 44 and A92-A100.]

96. A variation on the above example is where the *statistical return* includes financial information as well as non-financial information.

Example 1.1: Developing Separate Materiality Levels (cont’d)

The **entity** is required to report as described in Example 1 above. However, the *statistical return* comprises both financial and non-financial information.

The **engagement team** may place emphasis on qualitative factors and set multiple materiality levels for the *statistical return* element of the MSE, by adopting a combination of methods, for example:

Non-Financial Information:

- (a) As described in Example 1 (see above and ASAE 3000).

Historical Financial Information:

- (b) For historical financial information extracted from audited financial information (such as a SPFR), the engagement partner may:
 - (i) Determine that the materiality levels used in the audit of the SPFR are acceptable/suitable for the purposes of the statistical return; or
 - (ii) Establish new materiality levels:
 - ◇ In accordance with the principles espoused in ASA 320; or
 - ◇ Based on the amounts recorded in the statistical return.

Prospective Financial Information:

- (c) For prospective financial information, materiality may be set with reference to the principles and guidance provided in ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

In setting these differing materiality levels, the engagement partner takes into consideration the risk of issuing an inappropriate report. The engagement partner is satisfied with the level of work done when opining that "...the statistical return (i.e. *all* its component parts) has been prepared, *in all material respects*, in accordance with..."

- 97. Whatever approach is taken in setting materiality levels, the engagement partner is required under the AUASB Standards to consider that misstatements, deficiencies, deviations or non-compliance, and omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the information.
- 98. In setting materiality levels, regardless of the subject matter or level of assurance, the engagement partner reduces risk to an acceptable level in the circumstances of the assurance engagement.

Exception Reporting

- 99. As indicated in Example 1 above, the engagement requirements may ask for reporting of all exceptions identified in the course of the engagement. The criteria for any such reporting are established during the engagement planning stage. For example, if *every* instance of non-compliance is to be reported to the Regulator, the auditor:
 - (a) Clarifies the exact requirements—to report all instances of non-compliance *identified* during the assurance engagement is not the same as designing an assurance engagement *to identify all* instances of non-compliance.
 - (b) Clarifies the auditor's reporting requirements, including any prescribed reports—where the phrase: "...in all material respects..." is included in the auditor's opinion (or conclusion).
 - (c) Clarifies whether the auditor is expected to include in the auditor's report, all instances of non-compliance (already) reported by the entity, or whether the auditor's report should include only those instances of non-compliance that the auditor has identified and that the entity has yet to report to the Regulator.
 - (d) Where the auditor's responsibilities are unable to be clarified in terms of the matters set out in (a) to (c) above, the auditor communicates with the appropriate user of the auditor's report to obtain clarification.

- (e) Considers the principles in ASA 700 which provides for the auditor's report to include a *separate section* for "Other Reporting Responsibilities".¹⁸
- 100. Commonly, an auditor is expected to report all instances of non-compliance *identified* during the assurance engagement. Where this is the case, the concepts of setting materiality in accordance with the relevant AUASB Standards for the purposes of performing the audit or review, remain unchanged – that is, to determine the scope of the assurance work to be performed. However, materiality is *not* used to determine the scope of reporting non-compliance because *all* identified instances of non-compliance must be reported.
- 101. Appendix 8 provides an example of reporting instances of non-compliance identified during the audit.

Materiality and Reporting

- 102. In certain circumstances, the audit mandate, or a prescribed auditor's report, may require reporting that uses precise terms such as "...is correct". This suggests that "materiality" is not to be applied by the auditor and that the subject matter is audited in its entirety (i.e. the auditor's objective is *absolute* assurance). Such exacting terms are not used in the context of audit and other assurance engagements are *not* in accordance with AUASB Standards and if used in this context, are in fact misleading.
- 103. The AUASB *Framework for Assurance Engagements* provides a structure supporting only "reasonable assurance" and "limited assurance", not *absolute* assurance. This is due to factors such as:¹⁹
 - (a) The use of selective testing.
 - (b) The inherent limitations of internal control.
 - (c) The fact that much of the evidence available to the auditor/assurance practitioner is persuasive rather than conclusive.
 - (d) The use of professional judgement in gathering and evaluating evidence and forming conclusions based on that evidence.
 - (e) In some cases, the characteristics of the underlying subject matter when measured or evaluated against the criteria
- 104. As described in earlier sections of this GS, the auditor communicates with the entity and the user to clarify expectations. Such communication will serve to inform all parties concerned and enable clarification of the auditor's responsibilities under the AUASB Standards and the auditor's objectives which in turn will drive the auditor's procedures and ultimately the auditor's report.
- 105. In these cases, communications among the relevant parties would be expected to lead to:
 - (a) An amendment to the scope of the engagement, such as the addition of agreed upon procedures which enable the auditor to report factual findings and where, if insisted upon by the user, terms like "...are correct" may not be misleading. Any such arrangement would need to be reflected in the terms of the engagement documentation and would ordinarily attract additional fees.

The auditor considers the matters discussed in paragraphs 72-77 (Section F).
 - (b) Clarification of the issues described in paragraphs 99-100.

¹⁸ See ASA 700, paragraphs 38 and 39.

¹⁹ See *Framework for Assurance Engagements* paragraph 72 (and also paragraphs 92-onwards on "Materiality")

K. Cost Allocations [Ref: Table 1]

106. Commonly in grant acquittals, it is necessary for the auditor to obtain sufficient appropriate evidence in relation to the entity's allocation of costs, such as overheads and labour, to the specific project(s) covered by the grant.

Ordinarily, the auditor establishes, among other things:

- (a) What constitutes "eligible expenditure" specific to the particular grant;
- (b) How to determine what is acceptable eligible expenditure; and
- (c) The criteria that the entity uses to allocate expenditure to the specific project to which the grant applies.

The grant agreement may provide some of the information and definitions required, however, if this is not the case, the auditor may find relevant details in the documentation that supports the entity's grant application.

107. It must be remembered that the entity receiving the grant is responsible for proper accounting under the terms of the grant agreement, not the auditor. The auditor's responsibilities are to be objective, exercise professional judgement, maintain professional scepticism and obtain sufficient appropriate evidence with which to conclude (on cost allocations).
108. The auditor considers the auditor's understanding of the engagement mandate and its requirements, and the entity's approach, procedures and internal control for allocating costs to the specific project/subject matter concerned. As with all aspects of a SSGA or a MSE, it is preferable to consider each section separately.
109. The auditor may adopt a full substantive approach by testing the elements and computations of the entity's calculations. Alternatively, the auditor may choose a combination of procedures by auditing the entity's internal control that is designed to ensure proper allocation of costs to specific projects together with supporting substantive procedures. In deciding the approach, the auditor refers to any relevant requirements that may be included in the engagement mandate.
110. However, the entity may not have consistently applied suitable criteria, or adopted a structured, or formal, approach to cost allocation. It is not uncommon for an entity to use an arbitrary approach. In such cases, the auditor:
- (a) Assesses the suitability of the criteria used for cost allocations.
 - (b) Obtains an understanding of the entity's methods of to cost allocation.
 - (c) Assesses the efficacy of the approach used by, for example, comparison with a reasonable model developed by the auditor.
 - (d) Asks the entity to provide the base information and calculations of a reasonable model.
 - (e) Failing the entity's ability or co-operation to support their cost allocation, attempts to obtain the basic information and develop a reasonable model that can be used to assess the reasonableness of the entity's method(s).
 - (f) Where the auditor is unable to obtain sufficient appropriate evidence to support the entity's allocation, the auditor:
 - (i) Communicates with those charged with governance; and
 - (ii) Considers the effect on the auditor's report.

L. Substantive Procedures (Assurance Engagements) [Ref: Table 1]

111. Due to the nature of a SSGA or a MSE, determining the appropriate substantive procedures, including the use of sampling, and the extent of work to be performed, may present difficulties. In such cases, the auditor returns to basic principles, namely:
- (a) Confirming any relevant requirements in the engagement mandate, such as:
 - (i) Procedures that may be necessary to assess and report on compliance with a grant funding agreement.
 - (ii) Requirements to perform and report on (unspecified) tests of detail on specified categories of expenditure.
 - (iii) The existence of prescribed procedures that an auditor is required to perform and report on. [See paragraphs 72-75]
 - (iv) Procedures considered necessary to detect and report weaknesses in internal control, or breaches/non-compliance with laws, regulations or the terms of a contract/agreement.
 - (v) Procedures considered necessary to support communications with management and those charged with governance.
 - (b) The MSE is considered in terms of each distinct section. This facilitates clear understanding of:
 - (i) The relationship and relevance of each section to other sections in the MSE; and
 - (ii) Specific objectives, strategies and work programs to address each specific objective in the context of materiality and reliance on (tested) internal control.
 - (c) Once this clarity of (specific) purpose is established, selecting the appropriate timing, nature and scope of substantive procedures is no different from any other type of engagement.
 - (d) Uppermost is the requirement for sufficient appropriate evidence with which to conclude. The extent of substantive procedures to obtain evidence can be reduced where reliance can be placed on the results of testing the design and operating effectiveness of relevant internal controls. Care is taken that control reliance is obtained only in respect of assertions addressed by controls that have been tested. Where a relevant assertion has not been addressed by a control, or a control test has failed, the extent of the auditor's substantive procedures is increased.
 - (e) Ordinarily, substantive analytical procedures²⁰ (SAPs) are considered first because of the potential for efficiencies and effectiveness. SAPs are most useful in dealing with large populations and where reliable data can be used to develop sufficiently precise predictions/expectations. Analytical procedures include techniques to prove a population in total, and the use of computer-assisted techniques, such as data analytics.
 - (f) Where SAPs are not likely to be efficient or effective, the alternative tests of detail is required. Again, the auditor considers efficiency and effectiveness in determining the nature, timing and extent of procedures.

²⁰ See ASA 520 *Analytical Procedures*.

- (g) Where sampling is chosen to obtain substantive evidence²¹ from which to draw reasonable conclusions, the auditor clarifies the sampling objectives in order to choose the appropriate sampling approach/technique, namely:

- (i) Representative sampling is used when the size of the population is large and the characteristics of the population are reasonably homogeneous – samples can be used appropriately to draw conclusions about the entire population.

Samples can be selected by

- ◇ Statistical methods, which provide a structured approach to evaluating results; or
- ◇ Non-statistical methods, including judgemental selection, the results of which may, however, be difficult to evaluate in terms of drawing a conclusion on the entire population sampled.

- (ii) Stratification sampling is used when the auditor divides a population into items with different characteristics, such as those with (high) values over a particular amount and those falling below the amount.

The auditor tests *all* the items with a particular characteristic (such as those with high values). This type of sampling is commonly used in populations where the auditor can easily select and test a small number of items which account for a majority of the entire population from which they were selected.

The remaining items in the target population, having different characteristics, such as those with low values, may be subjected to representative sampling (see (i) above).

- (h) Care must be exercised when the auditor intends to use substantive tests for more than one purpose.

For example: Payroll testing designed, in combination with tests of internal control, to obtain sufficient appropriate evidence for one section of a MSE, say, the audit of a financial report may not be appropriate to conclude on another section of the MSE, say, compliance with laws over a period of time.

- (i) Regardless of the procedures adopted by the auditor, the auditor obtains sufficient appropriate evidence from which to draw conclusions in relation to each section of the engagement irrespective of the level of disaggregation of that information.

Controls

- (j) For information on testing controls, see ASAE 3150 Assurance Engagements on Controls.

M. Concluding and Reporting [Ref: Table 1]

Forming Conclusions

112. The first step is for the auditor to reach an overall conclusion on the subject matter—regardless of the type of subject matter (financial, non-financial) or the level of assurance (reasonable and/or limited). This is achieved by:

- (a) Determining whether the auditor has obtained reasonable or limited assurance, as the case may be. The auditor evaluates the conclusions drawn from the evidence obtained throughout the engagement. This evaluation is conducted by reference to the auditor's objectives and procedures at each stage of the engagement.

²¹ See ASA 530 *Audit Sampling* and where relevant, the applicable ASAEs.

- (b) The auditor's objective, at this stage, is to determine the overall sufficiency and appropriateness of the evidence obtained.
 - (c) The auditor considers the qualitative aspects of the entity's reporting practices in forming an overall conclusion by taking into account:
 - (i) The persuasiveness of evidence obtained through the planned response to assessed risks of material misstatement, deviation, deficiency or non-compliance.
 - (ii) Whether uncorrected misstatements, deviations, deficiencies or non-compliances are material (either individually or in aggregate).
 - (iii) Whether the entity's financial or other report(s) is presented or prepared, in all material respects, in accordance with the requirements of the applicable criteria/reporting framework.
 - (d) In view of the requirements of the criteria/applicable reporting frameworks, the auditor considers whether the entity's report(s):
 - (i) Identifies the criteria/applicable reporting framework(s).
 - (ii) Adequately discloses what is required to be disclosed;
 - (iii) Reflects appropriate reporting policies applied in accordance with the applicable reporting frameworks;
 - (iv) Reflects reasonable management estimates, where applicable;
 - (v) Is relevant, reliable, comparable and understandable;
 - (vi) Is appropriate in presentation, structure, content and contains terminology that is appropriate; and
 - (vii) Represents the underlying transactions, events and records.
113. The criteria/applicable reporting framework(s) may not require management, or those charged with governance, to evidence their responsibility for the entity's reports by signing an attestation or declaration that accompanies the entity's reports. In such circumstances, the auditor encourages management to do so on the basis that such omission renders the entity's reports incomplete and therefore potentially ambiguous to users.
114. In circumstances where a written management attestation does not accompany the entity's reports, such as is often the case in prescribed reporting formats, the auditor reflects on management's acceptance of the terms of the engagement as evidenced by the engagement letter. In such cases, the auditor may utilise an "Other Matter" paragraph in the auditor's report, to address any lack of clarity regarding responsibilities. [See also paragraph 68]

Expressing Opinions/Conclusions

115. Reporting responsibilities and prescribed auditor's reports are included in the discussions on practical issues - see sections D and E.
116. In developing the auditor's report, the auditor starts by reconfirming their understanding of the following:

Table 5: Reconfirming Reporting Requirements

		Paragraph/Ref
a	Whether the form and content of the auditor's report is prescribed in part or whole	66-71
b	The reporting requirements set out in the engagement mandates	51-65
c	User needs	55-58
d	Other reporting responsibilities	63-65
e	Reporting requirements set out in the relevant AUASB Standards	ASAs; ASREs; ASAEs; and ASRSs

117. Ordinarily, the auditor has a level of discretion in determining the form and content of the auditor's report within the context of the above requirements. In such cases, the auditor pays particular attention to user needs and the purpose of the engagement.

Report Content

118. The reporting requirements included in all AUASB Standards, in particular ASA 700 and ASAE 3000, contain the following basic elements of an auditor's report in common, namely:
- (a) The addressee/intended user.
 - (b) Identification of the subject matter—such as a financial report, an attestation or statement of compliance or a schedule of non-financial information;
 - (c) The criteria used in the preparation of the subject matter information or with which the subject matter will be evaluated—such as the Australian Accounting Standards, the terms of a contract or regulatory requirements;
 - (d) The responsibilities of those whose duty it is to prepare the subject matter information;
 - (e) The auditor's responsibilities; and
 - (f) The opinion or conclusion statement.
119. Overall, the auditor determines that the auditor's report is not misleading – see paragraphs 67-70.

Modifications

120. Modifications to an auditor's report on a SSGA or a MSE are premised on the auditor's obligation to communicate with users. This premise is no different to reporting on any other assurance or non-assurance engagement.
121. Modifications to an auditor's report fall into 2 broad categories:
- (a) Modifications to the auditor's opinion or conclusion statements, (qualifications, adverse opinions and disclaimers of opinion). The auditor draws attention to an issue relating to the subject matter that, in the auditor's opinion, would render the subject matter information misleading but for the auditor's communication; and
 - (b) Drawing attention to important information contained within the subject matter information, (using an emphasis of matter paragraph) or in relation to the audit, the auditor's responsibilities or the auditor's report, (other matter paragraph), so as to focus users' attention on the significance of certain information in understanding the subject matter report or statement and the auditor's report thereon.

122. Auditors of SSGA and MSE who modify their reports apply the principles expounded in ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*; and ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

Other Reporting Responsibilities

123. When the auditor has reporting responsibilities in addition to the auditor's responsibilities to report on the subject matter, the auditor communicates the relevant information using one or more paragraphs that appear after the auditor's opinion or conclusion statement. This facilitates the auditor presenting information that does *not* affect the auditor's opinion or conclusion statement.
124. The auditor determines what is required to be reported. For example, in some circumstances only "significant" compliance breaches are required to be reported – if this is the case, the auditor obtains an understanding of what constitutes "significance to users" and the relationship with matters considered "material".
125. An example of other reporting responsibilities in a MSE is where an auditor is required to report *all* instances of an entity's non-compliance with regulations. The auditor may use a "Report on Other Legal and Regulatory Requirements" paragraph for this purpose and an attached schedule or detailed report where necessary. Ordinarily, the auditor includes those matters of non-compliance already identified and reported by the entity, together with any additional instances of non-compliance, if any, that the auditor has identified during the audit.
126. In such circumstances, auditors, preparers and users alike may commonly misinterpret the additional reporting requirements as meaning the auditor is required to perform a 100% check of the subject matter (in this example, continual compliance with regulations). It is the auditor's responsibility to clarify such thinking as, in this case, the intention is for the auditor to report all instances of non-compliance *that came to the auditor's attention during the course of the audit* – that is, there is no compliance object per se, and the auditor plans the engagement accordingly.
127. An illustrative example report is provided in Appendix 8.

Appendix 1

(Ref: Para.33 onwards)

SUMMARY

The following tables are intended as reminders only of some of the matters included in this GS that an auditor considers in addressing practical application issues associated with a SSGA and a MSE (see Table 1, paragraph 5). It is not intended that all the considerations in the tables apply to every SSGA or MSE; or that the listings serve as a program or checklist in the conduct of such engagements. Paragraph numbers refer to more extensive commentary in the body of this Guidance Statement.

Table 1.1: Considerations in all SSGA and MSE

Topic	Para Ref:	Considerations
Overall Strategy	28	The most effective approach auditors can adopt to address practical application issues regarding a SSGA or a MSE, is comprehensive planning through: <ul style="list-style-type: none"> (a) Considering separately the engagement mandates, user needs and objectives for each of the different sections of the engagement in order to identify clear and distinct imperatives; (c) Communicating with relevant parties to clarify uncertainties and resolve issues; and (b) Establishing detailed strategies, plans and efficiencies <i>only</i> when there is clarity about each section of the engagement(s).
Preconditions	29	Under the AUASB Standards, the preconditions for each assurance aspect of the MSE engagement are established.
Terms of Engagement	30	Each SSGA or separate section of a MSE is included in an engagement letter.

Table 1.2: Considerations in Addressing Specific Issues

Issue Ref.	Topic	Para Ref:	Considerations
A	Unclear mandates	34	Auditors seek to clarify the SSGA or MSE requirements. The auditor's engagement objectives and responsibilities can only be apparent when the engagement mandates are properly understood.
A	Unclear mandates	36	Of particular importance for the auditor, is clarity about, and assessment of, the suitability of criteria, the acceptability of the reporting framework, and management's acceptance of its responsibility to report under that framework.
A	Unclear mandates	40	Where engagement mandates are defined in out-dated terms, such as is the case in some legislation, regulation or long-standing contracts, the auditor may communicate with the relevant regulator or parties to the contract (the users) to clarify their current expectations.
B	Subject Matters unable to be assured	44	Engagement mandates may require assurance on a subject matter that is unable to be assured or very difficult to assure. The auditor communicates with the users to determine if alternative arrangements are acceptable.

Issue Ref.	Topic	Para Ref:	Considerations
B	Subject Matters unable to be assured	48	When an auditor is prevented from declining an engagement that the auditor would otherwise not accept, the auditor consults and may issue a disclaimer of opinion; or write or report separately to the user(s).
C	Obtaining Evidence from third parties	50	<p>The overriding issue for the auditor is the ability to obtain sufficient appropriate evidence in relation to those matters considered to be material and relevant to the auditor's objective(s) where evidence is located with a third party.</p> <p>Depending on the circumstances, the auditor may be able to achieve this by:</p> <ul style="list-style-type: none"> (a) access to the third party's records; or (b) access to the working papers of the third party's auditor; or (c) requesting the third party's auditor to perform procedures; or (d) complying with ASA 402, if applicable, when an ASAE 3402 report on controls at the third party is available <p>When sufficient appropriate evidence is not obtained, the auditor considers the effect on the auditor's report.</p>
D	Reporting	51	The auditor obtains an understanding of the auditor's reporting responsibilities, including whether the auditor's report is prescribed or not prescribed.
D	Reporting	59	When reporting is <i>not</i> prescribed, the auditor may choose to issue a single-form report that comprises several different sections.
E	Prescribed reporting	67	In assessing prescribed reporting requirements, the auditor looks to ASA 210 and ASA 700, and where applicable ASAE 3000, which provide the principles to be considered regardless of which AUASB Standards apply.
E	Prescribed reporting	68	When an auditor determines that the prescribed reporting requirements do not conform with the requirements of the AUASB Standards, including a prohibition on modifying the auditor's opinion, and the auditor is unable to redress the situation appropriately, the auditor considers use of an "Other Matter" paragraph to provide additional explanation in the auditor's report
E	Prescribed reporting	70	<p>When the auditor is unable to decline an engagement that requires a report that does not comply with AUASB Standards, the auditor consults widely. When considered appropriate, the auditor may:</p> <ul style="list-style-type: none"> (a) Modify the opinion or conclusion statement. (b) Issue concurrently, a separate auditor's report that complies with the AUASB Standards. (c) Write separately to the user(s), referring to the specific prescribed auditor's report and setting out the auditor's concerns.
F	Prescribed scopes and/or procedures	74	The auditor preserves the auditor's independence and professional judgement in determining the extent, timing and scope of audit procedures—a fundamental principle underpinning the value of independent assurance.

Issue Ref.	Topic	Para Ref:	Considerations
			The auditor meets the auditor's objectives and in so doing, may: <ul style="list-style-type: none"> (a) Incorporate prescribed scopes/procedures into the auditor's plan; or (b) Perform the prescribed procedures in addition to the auditor's plan.
G	Performing MSE concurrently with the statutory audit	81	It is only at the engagement planning stage where the auditor finalises the engagement strategy and detailed plans, that efficiencies (from work performed on one section of the engagement for use on another) can be <i>planned</i> .
H	SSGA or MSE reporting periods differ from the entity's annual financial year.	87	Whenever leveraging work effort is achieved, the auditor determines that the engagement files contain appropriate documentation to support the conclusions on the SSGA and/or each distinct section of the MSE.
I	Performing MSE when <i>not</i> the auditor of the entity	89	An auditor who is <i>not</i> the auditor of the entity's annual financial report, pays particular attention to the "accepting" phase of the engagement.
I	Performing MSE when <i>not</i> the auditor of the entity	91	The more important considerations that an auditor, who is <i>not</i> the auditor of the entity's annual financial statement, considers: <ul style="list-style-type: none"> (a) Firm capabilities (b) Engagement acceptability and client relationship (c) Objectives (d) Preconditions for the assurance engagement (e) Agreeing the terms of the SSGA and/or MSE
J	Setting Materiality	93	Auditors exercise professional judgement by considering <i>qualitative</i> and <i>quantitative</i> factors in setting materiality, including reasonable understanding of issues that would likely influence the decisions of users.
J	Setting Materiality	95	The auditor of a SSGA or a MSE develops <i>separate</i> materiality levels for each of the sections of the engagement.
K	Cost Allocations	108	The auditor obtains an understanding of the entity's approach, procedures and internal control for allocating costs to the specific project/subject matter concerned. As with all aspects of a SSGA or a MSE, it is best to consider each section separately.
L	Substantive Procedures	112	In determining the nature, timing and extent of substantive procedures in a SSGA or MSE, the auditor applies the same principles as with any assurance engagement. Uppermost is sufficient appropriate evidence and in this context, the auditor selects the most effective and efficient procedures in the circumstances.
M	Concluding and Reporting	112	The auditor reaches an overall conclusion through assessing: the sufficiency and appropriateness of the evidence obtained; and whether the entity's report(s) or attestation are materiality misstated or there is a material non-compliance, deviation or deficiency in the subject matter.
M	Concluding and Reporting	119	Overall, the auditor determines that the auditor's report is not misleading.

Appendix 2

(Ref: Para.12)

NATURE OF ASSURANCE AND NON-ASSURANCE ENGAGEMENTS

Introduction

Some engaging parties require engagements which combine levels of assurance and no assurance, different subject matters, different criteria and both attestation and direct engagements. Multiple AUASB Standards will apply to such engagements and consequently the acceptance, planning, conduct and reporting of those engagements can be complex and confusing.

All assurance engagements involve the evaluation or measurement of a subject matter (financial information, controls, and compliance activities) against criteria (financial frameworks, control objectives, legislation/regulation/contractual requirements) to reach a reasonable or limited assurance conclusion. In attestation engagements, the responsible party (the entity), conducts that evaluation or measurement and presents the results in a statement (financial statement, attestation on operating effectiveness of controls or attestation on compliance with requirements). In direct engagements, no evaluation or measurement is undertaken by the responsible party.

Agreed-upon procedures engagements are engagements to conduct procedures that have been agreed to by the auditor and the engaging party; where the auditor reports factual findings; and the auditor does not provide assurance.

Subject Matters

Subject matters are the focus of specific (assurance) engagement objectives and can take many forms, such as:

- (a) Financial performance or conditions (for example, historical or prospective financial position, financial performance and cash flows) the measurement of which is presented in the subject matter information such as a financial report, a summary or extract from a financial report or a single financial statement.
- (b) Non-financial performance or conditions (for example, performance of an entity) for which the subject matter information may be key performance indicators of efficiency and/or effectiveness.
- (c) Physical characteristics (for example, capacity of a facility) for which the subject matter information may be a specifications document.
- (d) Systems and processes (for example, an entity's internal control or IT system) for which the subject matter information may be an attestation about effectiveness of that system to meet control objectives.
- (e) Behaviour (for example, corporate governance, compliance with regulation and human resource practices) for which the subject matter information may be a statement of compliance or a statement of effectiveness.

Compliance engagements may cover short periods of time or may relate to compliance over the reporting period, such as is expected with legislation and regulation.

An appropriate subject matter is:

- (a) Identifiable, and capable of evaluation or measurement against the identified criteria; and
- (b) Such that the information about it can be subjected to procedures for gathering sufficient appropriate evidence to support a conclusion.

Suitable Criteria

Criteria are the benchmarks used to measure or evaluate the underlying subject matter. Suitable criteria are those which exhibit the characteristics of: relevance, completeness, reliability, neutrality and understandability [ASAE 300, paragraph 24(b)(ii)].

Levels of Assurance

Assurance is where an auditor expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria.

A reasonable assurance engagement means an assurance engagement where the auditor's objective, directed by the engagement mandate, is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement as the basis for a *positive form* of expression of the auditor's conclusion – an opinion. A reasonable assurance engagement is commonly referred to as an audit.

A limited assurance engagement means an assurance engagement where the auditor's objective, directed by the engagement mandate, is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a *negative form* of expression of the auditor's conclusion – a conclusion. A limited assurance engagement is commonly referred to as a review.

Agreed-upon procedures

Agreed-upon procedures engagements, performed by an auditor, are where factual findings are reported but no conclusion or opinion is expressed and no assurance is provided by the auditor (or assurance practitioner). The intended users draw their own conclusions based on the factual findings reported combined with any other information they may have obtained.

Reporting Frameworks

The form and content of the auditor's report are directed by the reporting frameworks, or other criteria, used to produce the subject matter information. Subject matter reporting frameworks may be:

- (a) Prescribed by law or regulation, such as the Australian Accounting Standards; or
- (b) Established conventions that are generally recognised, such as cash accounting; or
- (c) Established by users to meet their special needs, such as reports on internal controls.

AUASB Standards

The AUASB Standards are set out to address:

- (a) Historical financial information²²:
 - (i) Fair presentation frameworks; and
 - (ii) Compliance frameworks; and
- (b) Other than historical financial reporting²³ - which include compliance, controls and performance engagements.

Under AUASB assurance and agreed-upon procedures Standards, and ethical and professional Standards, an auditor is required to determine that the subject matter reporting framework is

²² See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 13.

²³ See the AUASB's Standards on Assurance Engagements (ASAEs).

acceptable/suitable in the circumstances of the engagement. A clear understanding of the framework used to present the subject matter information is fundamental to the auditor establishing the form and content of the auditor's report.

Draft

Appendix 3

(Ref: Para.14)

EXAMPLES OF MULTIPLE-SCOPE ENGAGEMENTS

The following examples are provided in the context of reporting a MSE using a single-form auditor's report format. References to other AUASB Guidance Statements are included to demonstrate the principles of single-form reporting when addressing more than one subject matter.

A Grant Acquittals

1. Grant acquittal assurance engagements generally arise from requirements stated in a grant agreement issued by Government—Federal, State, Local; or others including Not-for-Profit and Philanthropic organisations.
2. Commonly, the grant agreement details matters such as:
 - (a) The parties to the agreement and their responsibilities;
 - (b) The purpose of the grant;
 - (c) The amount of funding;
 - (d) Guidelines and conditions for the grant;
 - (e) Expected milestones; and
 - (f) Reporting and assurance requirements. In some cases, the form and content of the auditor's report may be prescribed by the grant provider.
3. The assurance aspect of the grant agreement generally relates to matters such as:

Financial

 - (a) The recipient's financial report relating to the grant monies – often an income and expenditure statement drawn up on a cash basis of accounting.
 - (b) The total amount of expenditure on the project.
 - (c) Expenditure per accountability period.
 - (d) Contributions made by the recipient organisation.

Non-Financial

 - (e) Whether the grant monies have been utilised for the purpose(s) stated in the grant agreement.
 - (f) Whether milestones stated in the agreement have been achieved.
 - (g) Whether the project has been completed.
 - (h) Number of hours spent on the project.
 - (i) Whether project assets have been properly insured.

Assurance

 - (j) The level of assurance required—"reasonable" or "limited" or combination of both.

- (k) Qualification of the auditor, including independence.

Commonwealth Grant Guidelines (CGG) - Outline of a Selection of Points

In June 2013, the Department of Finance and Deregulation issued Financial Management Guidance no. 3 [Commonwealth Grant Guidelines](#) which came into effect from 1 June 2013. The CGG establish the Government's overarching grants policy framework, under which agencies can then determine their own specific grants administration practices.

The Department of Finance and Deregulation has developed a range of information products including Finance Circular 2013/01: Grants, Procurement and Other Financial Arrangements and Finance Circular 2013/02: Australian Government Grants Briefing and Reporting. They provide practical examples of how to determine if an activity is a grant and how to meet the requirements in the CGG.

The CGG apply to a broader range of financial activities, such as gifts and ex-gratia payments. The updated CGG introduce important changes which seek to reduce red-tape and improve collaboration between agencies and stakeholders, particularly in the not-for-profit (NFP) sector.

The CGG suggest agencies should simplify and improve grant processes by: streamlining reporting; adopting better practice tools and templates, such as the Low-Risk Grant Agreement Template; and using longer-term grant agreements where appropriate.

The updated CGG emphasise that grant administration processes should be proportional to the scale and risk profile of the granting activity. In particular, they require that reporting and acquittal requirements must be commensurate with the assessed risks. For example, there is no mandatory requirement to acquit a grant, instead the CGG encourage a stronger focus on evaluating whether outcomes have been achieved.

The CGG require that unless agency staff has assessed a granting activity as higher risk, a financial acquittal should not be sought from an entity regulated by the Australian Charities and Not-for-profits Commission (ACNC).²⁴ That said, agency staff may seek certification that grant funds were spent for the purpose of the grant and identification of any unspent amounts.

Under the principle of "report once, use often", agency staff should no longer seek information from grant applicants and recipients that is already collected by government. Agency staff must not request information provided to the ACNC by organisations regulated by them.

B Requests from Management/TCWG

An example of a MSE requested by management, or those charged with governance (TCWG), is where management requests the auditor of the company to audit the cash receipts and disbursements of the company's social club and the related internal controls; agree leave taken during a specified period by a specified employee category to employee records; and review the leave balances calculations of all categories of employee at year-end for compliance with corporate policy.

This MSE comprises:

a	An audit (reasonable assurance) on a special purpose financial report (cash basis of accounting – historical financial information).	Auditor's opinion (positive form)	ASA 800
b	An engagement to provide reasonable assurance on the design and operating effectiveness of internal controls.	Auditor's opinion (positive form)	ASAE 3150

²⁴ See Appendix 11 for further details about the ACNC.

a	An audit (reasonable assurance) on a special purpose financial report (cash basis of accounting – historical financial information).	Auditor’s opinion (positive form)	ASA 800
c	An agreed-upon procedures engagement where a factual findings report is provided but no assurance is given.	Factual findings	ASRS 4400
d	A limited assurance engagement to review the calculations of a list of leave balances at year-end in compliance with corporate policy.	Auditor’s conclusion (negative form)	ASAE 3100

Requests from management may take the form of a written request or may be verbal. Regardless of how the request is communicated, the auditor complies with AUASB Standards that require agreement on the terms of engagement to be in writing. This requirement enables the auditor to clarify and confirm the various sections and user needs that comprise the MSE.

In these types of engagement, the auditor designs the auditor’s report.

C Self-Managed Superannuation Funds

Self-managed superannuation funds (SMSFs) are specific types of superannuation funds which are enabled and governed by the *Superannuation Industry (Supervision) Act 1993* (SISA) and the *Superannuation Industry (Supervision) Regulations 1994* (SISR). This legislation is regulated by the Australian Taxation Office (ATO). The Australian Securities and Investments Commission (ASIC) is given responsibility for the registration of approved SMSF auditors and setting competency Standards.

The auditor reports to the trustees in the “approved form” which includes opinions on two sections:

Part A: Financial Report; and

Part B: Compliance.

In conducting the audits, an auditor complies with the requirements of the Auditing Standards when addressing the financial report (Part A); and the requirements of ASAE 3100 *Compliance Engagements* when addressing the SMSF’s legislative compliance (Part B).

In this case, the auditor’s report is a single-form prescribed report (see AUASB Guidance Statement GS 009).

D Annual Reporting to a Regulator

Another more elaborate example of prescribed reporting to a regulator is where a *life company* is required to prepare and present an *Annual APRA Return*. Under legislation and APRA requirements, the entity is responsible for various matters, described in the table below, which demonstrate differing subject matters and different levels of required assurance:

Subject Matter	Level of Assurance
Section A: Annual APRA Return:	
<ul style="list-style-type: none"> Prepared in accordance with legislation and APRA Reporting Standards Accounting for statutory funds Financial position at year-end in accordance with APRA Reporting Standards. 	Reasonable [ASA 800]

Subject Matter	Level of Assurance
<ul style="list-style-type: none"> • Apportionments made in accordance with acceptable accounting principles. 	
Section B: Controls to Ensure Compliance with APRA Requirements:	
<p>Parts A, B and C:</p> <ul style="list-style-type: none"> • Systems, procedures and internal controls to comply with legislation, regulation and APRA requirements 	Limited [ASAE 3150]
<p>Part D: <i>Evaluation of the results of the auditor's other procedures in the context of the entity's compliance with Prudential Requirements:</i></p> <ul style="list-style-type: none"> • The review of controls • The audit of the Annual APRA Return • The audit of the financial report conducted under the Corporations Act 2001. 	Limited [ASAE 3100]

AUASB Guidance Statement GS 017 *Prudential Reporting Requirements For Auditors of a Life Company* provides comprehensive guidance on the APRA requirements under its Prudential Standards, including an example auditor's report that illustrates the reporting principles adopted in a MSE report.

E Applications for Licences

An example of a MSE relating to licence applications is in relation to Australian Financial Services (AFS) licences under the *Corporations Act 2001*, where requirements comprise several sections, namely:

- (a) A (traditional) audit of historical financial statements;
- (b) Reasonable assurance on compliance with certain requirements;
- (c) Limited assurance on compliance with other requirements;
- (d) A statement by the auditor (no matters not previously reported); and
- (e) A prescribed auditor's report (Form 71).

Appendix 4

(Ref: Para.32)

EXAMPLE OF AN ENGAGEMENT LETTER FOR A MSE

Illustration 1

The following is an example of an engagement letter for:

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

This letter illustrates (certain) requirements and principles promoted in the AUASB Standards and can be used appropriately for MSE. It will need to be varied 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.

To the appropriate representative of management or those charged with governance of ABC Company Ltd.²⁵

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

You²⁶ 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 xyz and dated -- -- that you have entered into with Government Department X. The assurance required comprises an audit of the income and expenditure statement 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 audit and other assurance work 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 other relevant Standards issued by the Auditing and Assurance Standards Board (AUASB). Those Standards require that we comply with ethical requirements and plan and perform the audit and other assurance work to:

²⁵ 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 A21. For an audit under the *Corporations Act 2001*, the appropriate persons are the Directors.

²⁶ 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.

- (a) Obtain reasonable assurance about whether the financial report and the statement of grant income and expenditure relating to the xyz grant, are free from material misstatement.; and
- (b) 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 -- -- with Government Department X.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and 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 income and expenditure statement.

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.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial report and statement of grant income and expenditure 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. 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 that we have identified during the audit.

[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 audit will be conducted on the basis that [management and, where appropriate, those charged with governance]²⁷ acknowledge and understand that they have responsibility for:

- (a) The preparation of the financial report that gives a true and fair view in accordance with the *Corporations Act 2001* and Australian Accounting Standards;²⁸
- (b) The preparation of the statement of grant income and expenditure in accordance with a cash basis of accounting;
- (c) Compliance with the terms of the grant agreement with Government Department X; and
- (d) 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

To provide us with:

- (a) 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 such as records, documentation and other matters;
- (b) Additional information that we may request from the directors and management for the purpose of the audit and other assurance work; and
- (c) Unrestricted access to persons within the company from whom we determine it necessary to obtain audit and other assurance evidence.

²⁷ Use terminology as appropriate in the circumstances. For an audit under the *Corporations Act 2001*, the appropriate terminology is "the Directors".

²⁸ 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."

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

We look forward to full cooperation from you and your staff during our audit and other assurance work.

[Other relevant information]

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

[Reporting]

Our intention is to issue:

- (a) A single auditor's report in relation to the company's general purpose financial report for the year ending XX XX 20XX; and
- (b) A separate single-form auditor's report comprising:
 - (i) Our opinion on the statement of grant income and expenditure; and
 - (ii) Our conclusion on the company's compliance with the terms of the grant agreement with Government Department X.

[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 audit and other assurance 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:

- (a) the provision of services offered to you by [insert firm name] prior to engaging or accepting the service; and
- (b) 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 other assurance work 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:

- (i) Reasonable assurance for one subject matter; and
- (ii) Limited assurance for a different subject matter.

This letter illustrates (certain) requirements and principles promoted in the AUASB Standards and can be used appropriately for MSE. It will need to be varied 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.

To the appropriate representative of management or those charged with governance of ABC Entity/Company Ltd.²⁹

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

You³⁰ have requested that we provide assurance in accordance with the terms of the grant agreement, titled xyz and dated -- -- that you have entered into with Government Department X. The assurance required 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 audit and other assurance work 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 and other assurance work in accordance with Australian Auditing Standards and other relevant Standards issued by the Auditing and Assurance Standards Board (AUASB). Those Standards require that we comply with ethical requirements and plan and perform the audit and other assurance work to:

- (a) Obtain reasonable assurance about whether the statement of grant income and expenditure relating to the xyz grant, is free from material misstatement.; and
- (b) 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 -- -- with Government Department X.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the income and expenditure statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 income and expenditure statement.

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.

²⁹ 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 A21.

³⁰ 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.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the statement of grant income and expenditure 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. 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 that we have identified during the audit.

[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 audit will be conducted on the basis that [management and, where appropriate, those charged with governance]³¹ acknowledge and understand that they have responsibility for:

- (a)
- (b) The preparation of the statement of grant income and expenditure in accordance with [a cash basis of accounting];
- (c) Compliance with the terms of the grant agreement with Government Department X; and
- (d) 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

To provide us with:

- (a) 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 such as records, documentation and other matters;
- (b) Additional information that we may request from the directors and management for the purpose of the audit and other assurance work; and
- (c) 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 audit and other assurance processes, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit and other assurance work.

We look forward to full cooperation from you and your staff during our audit and other assurance work.

[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:

- (i) Our opinion on the statement of grant income and expenditure; and
- (ii) Our conclusion on the entity's/company's compliance with the terms of the grant agreement with Government Department X.

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

³¹ Use terminology as appropriate in the circumstances.

The form and content of our report may need to be amended in the light of our audit and other assurance 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 other assurance work including our respective responsibilities.

Yours faithfully

.....

Partner

XYZ & Co.

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

(signed)

.....

Name and Title

Draft

Appendix 5

(Ref: Para. 79)

EXAMPLE OF A REPRESENTATION LETTER FOR A MSE

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

- (i) Reasonable assurance for one subject matter; and
- (ii) Limited assurance for a different subject matter.

This letter illustrates (certain) requirements and principles promoted in the AUASB Standards and can be used appropriately for MSE. The letter is based on (certain) requirements of the Auditing Standards and will need to be varied according to individual requirements and circumstances. In some cases, a MSE representation letter may include representations relating to the statutory audit of the entity's annual financial report. This example 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 MSE mandates.

(Entity Letterhead)

(To Auditor) (Date)

This representation letter is provided in connection with:

- (a) Your audit of ABC Entity's statement of grant income and expenditure for the year ended 30 June 20XX [or period covered by the auditor's report] for the purpose of expressing an opinion as to whether the statement of grant income and expenditure is presented fairly, in all material respects, in accordance with the grant agreement with Government Department X dated -- --; and.
- (b) Your review of ABC Entity's compliance with the terms of the grant agreement identified above.

We confirm that *(to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves)*:

Statement of Grant Income and Expenditure

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the statement of grant income and expenditure in accordance with the cash basis of accounting and the terms of the grant agreement with Government Department X dated -- --; in particular the statement of grant income and expenditure presents fairly in accordance therewith.
- All events subsequent to the date of the statement of grant income and expenditure which require adjustment or disclosure so as to present fairly the statement of grant income and expenditure, have been adjusted or disclosed. (ASA 560)
- [Where applicable] The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the statement of grant income and expenditure as a whole. A list of the uncorrected misstatements is attached to this representation letter. (ASA 450)
- [Any other matters that the auditor may consider appropriate.]

Compliance with Grant Agreement

- We have fulfilled our responsibilities, as set out in the terms of the grant agreement with Government Department X, dated -- --.

- [Any other matters that the auditor may consider appropriate.]

Information Provided

- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the statement of grant income and expenditure; and the entity's/company's compliance with the grant agreement with Government Department X such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit and other assurance work; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit and other assurance evidence.
- All transactions relating to the grant, referred to above, have been recorded in the accounting records and are reflected in the statement of grant income and expenditure.
- We have disclosed to you the results of our assessment of the risk that the statement of grant income and expenditure may be materially misstated as a result of fraud. (ASA 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the statement of grant income and expenditure or compliance with the terms of the grant, referred to above. (ASA240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's statement of grant income and expenditure and compliance with the terms of the grant referred to above, communicated by employees, former employees, analysts, regulators or others. (ASA 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the statement of grant income and expenditure and complying with the terms of the grant, referred to above. (ASA 250)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (ASA 550)
- [Any other matters that the auditor may consider necessary.]
- We have provided you with all requested information, explanations and assistance for the purposes of the audit and other assurance work.*
- We have provided you with all information required by the grant agreement with Government Department X.

Management

Management

* There may be a regulatory requirement for particular information to be provided. For example, see section 312 of the *Corporations Act 2001*.

Appendix 6

(Ref: Para.59)

EXAMPLE AUDITOR'S REPORTS - MSE (NOT PRESCRIBED)

INTRODUCTION

The following examples of auditor's reports show how the various sections of a MSE can be reported when the form and content of the auditor's report is *not* prescribed.

The auditor is the auditor of the annual financial report and is also the auditor of the grant acquittal.

The examples are to be used as a guide only and will need to be modified according to the engagement requirements and the circumstances. As explained in paragraphs 59 and 60 of this GS, the auditor considers several factors in determining how best to report on the different sections of the MSE while complying with the engagement mandate(s) and the relevant AUASB Standards.

For example: The following Illustrations 1 and 2(b) could be set out in the auditor's report in a Part A, Part B, Part C format. The elements of the auditor's report – subject matter, responsibilities, conclusions etc., that are required by each relevant AUASB Standard(s) are set out in distinct and self-contained sections of the auditor's report - Part A, Part B etc. [GS 017 *Prudential Reporting Requirements For Auditors of a Life Company* provides an example of such layout]

Important Principles Illustrated

The principles illustrated by the example auditor's reports [**Illustrations 1, 2(a) and 2(b)**] are:

- (a) Using a single-form document to discharge different reporting requirements.
- (b) Using a combination of auditor's reports.
- (c) Using identifiable sections in the auditor's report to assist user understanding.
- (d) Clear identification of various subject matters.
- (e) Clear identification of different levels of assurance provided.
- (f) Clear descriptions of the responsibilities of both management and the auditor, in respect of the different subject matters.
- (g) Discrete descriptions of the auditor's procedures depending on the particular subject matter.
- (h) Although not specifically illustrated, the ability to include other information, such as:
 - (i) A declaration of independence.
 - (ii) A basis for modification.
 - (iii) A restriction on distribution of the auditor's report.
 - (iv) An alert as to the inherent limitations in any internal control structure.
- (i) Conclusions expressed differently to reflect the individual sections of the engagement and the different levels of assurance (reasonable and limited).

Illustration 1

The first example is a single-form MSE auditor's report that comprises *all* subject matters and *all* levels of assurance that comprise the MSE.

The entity is a not-for-profit incorporated association that is required to meet the financial reporting requirements of the applicable State Act or Regulation – that is to prepare and lodge an audited annual financial report with the Regulator. The Regulator:

- (a) does not prescribe the financial reporting framework or the form and content of the auditor's report; and
- (b) accepts a single-form multi-scope auditor's report that includes opinions and conclusions that are in addition to the opinion on the annual financial report. The Regulator accepts that the auditor's report is addressed to the members of the entity and therefore may include other auditor reporting such as a grant acquittal.

This illustrative multi-scope auditor's report has been developed using the requirements and examples provided in the following AUASB Standards:

MSE Section	AUASB Standard	AUASB Standard Reference
<i>Reasonable Assurance</i>		
Annual Financial Report (special purpose)	ASA 800	[Aus] Illustration 5
Statement of Grant Income and Expenditure	ASA 805	Illustration 2
Compliance with the grant agreement	ASAE 3000	Section titled "Preparing the Assurance Report"
	ASAE 3100	Example 1
<i>Limited Assurance</i>		
Statement of employee numbers and labour costs.	ASRE 2405	Example 1

Illustration 1

EXAMPLE AUDITOR'S REPORT
[SINGLE-FORM MULTI-SCOPE]

***[Reporting in accordance with ASA 800, ASA 805, ASAE 3000, ASAE 3100
and ASRE 2405]***

[Appropriate addressee]

We have audited:

- (a) The accompanying financial report of ABC Entity, which comprises the statement of financial position as at 30 June 20XX, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration;
- (b) The accompanying statement of grant income and expenditure of ABC Entity for the year ended 30 June 20XX, a summary of significant accounting policies and other explanatory information, and management's attestation statement³² thereon (together "the financial statement"). The financial statement has been prepared by management using the cash basis of accounting described in Note X; and
- (c) ABC Entity's compliance with the terms of the grant agreement between ABC Entity and Government Department X, dated -- --, for the year ended 30 June 20XX (the Grant Agreement).

We have reviewed:

- (a) ABC Entity's statement of employee numbers and labour costs required under the Grant Agreement.

Management's³³ Responsibility

Management is responsible for:

- (a) The preparation and fair presentation of the financial report and has determined that the basis of preparation described in Note X to the financial report is appropriate to meet the requirements of [identify legislative requirement if any] and is appropriate to meet the needs of the members;
- (b) The preparation and fair presentation of the financial statement in accordance with basis of accounting described in Note X; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in accordance with the grant agreement;
- (c) The preparation of the statement of employee numbers and labour costs required under the grant agreement;
- (d) Compliance with the terms of the grant agreement; and
- (e) Such internal control as management determines is necessary to:

³² Or other appropriate term.

³³ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

- (i) Enable the preparation and fair presentation of the financial report, the financial statement and the statement of employee numbers and labour costs that are free from material misstatement, whether due to fraud or error; and
- (ii) Enable compliance with the terms of the grant agreement.

Auditor's Responsibility

Our responsibilities are:

- (a) To express an opinion, based on our audit, on:
 - (i) The financial report;
 - (ii) The financial statement; and
 - (iii) ABC Entity's compliance, in all material respects, with the terms of the grant agreement; and
- (b) To conclude, based on our review procedures, on the statement of employee numbers and labour costs.

We conducted our audits and review in accordance with Australian Auditing Standards; and applicable Standards on Review Engagements and Standards on Assurance Engagements. Those Standards require that we comply with relevant ethical requirements and plan and perform our work to:

- (a) Obtain reasonable assurance about whether the financial report and the financial statement are free from material misstatement and that ABC Entity has complied with the terms of the grant agreement; and
- (b) Obtain limited assurance as to whether anything has come to our attention that causes us to believe that the statement of employee numbers and labour costs is materially misstated.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the financial statement and about the company's compliance with the grant agreement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the financial statement, and to the company's compliance with the grant agreement, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used by management, as well as evaluating the overall presentation of the financial report and the financial statement.

A review consists of making enquiries and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the statement of employee numbers and labour costs.

We believe that the audit and review evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion and review conclusion.

Inherent Limitations (include where appropriate under paragraph 80(f) of ASAE 3100)

Because of the inherent limitations of any [details provided as appropriate by the auditor, refer to limitations in evidence gathering procedures and limitations in the responsible party's internal control framework], it is possible that fraud, error or non-compliance may occur and not be detected. An audit is not designed to detect all instances of non-compliance with the terms of the grant agreement [requirements], as an audit is not performed continuously throughout the [period] and the audit

procedures performed in respect of compliance with the terms of the grant agreement [requirements] are undertaken on a test basis. The audit conclusion expressed in this report has been formed on the above basis.

Opinion

In our opinion,

- (a) the financial report presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of ABC Entity as at 30 June 20XX, and (of) its financial performance and its cash flows for the year then ended in accordance with [the financial reporting requirements of [identify legislative requirement if any];
- (b) the financial statement presents fairly, in all material respects, the grant income and expenditure of ABC Entity for the year ended 30 June 20XX in accordance with the cash basis of accounting described in Note X and the terms of the grant agreement, dated -- --, with Government Department X; and
- (c) ABC Entity has complied, in all material respects, with the requirements of the grant agreement between the entity and Government Department X, dated -- --, for the year ended 30 June 20XX.

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the financial report and Note X to the financial statement, which describe the basis of accounting. The financial report has been prepared for the purpose of fulfilling management's financial reporting responsibilities under [identify legislative requirement, if any]. The financial statement is prepared to provide information to Government Department X in accordance with a grant agreement, dated -- --. As a result, the financial report and the financial statement may not be suitable for other purposes. [If applicable: Our report is intended solely for ABC Entity and Government Department X and should not be distributed to or used by parties other than ABC Entity and Government Department X.]

Use of Report

This compliance audit report has been prepared for ABC Entity and Government Department X in accordance with the requirements of the grant agreement between the entity and Government Department X, dated -- --. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than ABC Entity and Government Department X, or for any purpose other than that for which it was prepared.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the statement of employee numbers and labour costs as at 30 June 20XX is not, in all material respects, fairly presented in accordance with the grant agreement dated -- -- with Government Department X.

[Auditor's signature][#]

[Date of the auditor's report][†]

[Auditor's address]

[#] The auditor's report is signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

[†] The date of the auditor's report is the date the auditor signs the report.

Illustration 2(a) and 2(b)

The second and third examples demonstrate how the MSE engagement can be reported upon using two *separate auditor's reports*. An example of why an auditor might choose this option could be that the entity may be required, or wish, to use its annual financial report and the related auditor's report for more than one purpose and accordingly, a single-form multi-scope auditor's report (such as shown in illustration 1 above) may be confusing or an unnecessary distraction for users; or simply may not be permitted.

The entity is a small proprietary company controlled by a foreign company and is required to prepare and lodge an audited financial report with ASIC under the *Corporations Act 2001*. The entity is a non-reporting entity.

The Regulator does not prescribe the form and content of the auditor's report; however, requires conformity with the Act which prescribes compliance with the Auditing Standards issued by the AUASB under section 336 of the Act. Accordingly, the Regulator would be unlikely to accept a multi-scope auditor's report that includes reporting other than that required by the Act. Consequently, the company agrees that the auditor will issue 2 separate reports – one for statutory purposes and one for the grant acquittal.

The illustrative multi-scope auditor's reports have been developed using the requirements and examples provided in the following AUASB Standards:

MSE Section	AUASB Standard	AUASB Standard Reference
Illustrative Report 2(a)		
<i>Reasonable Assurance</i>		
Statutory Annual Financial Report (special purpose)	ASA 800	[Aus] Illustration 4
Illustrative Report 2(b)		
<i>Reasonable Assurance</i>		
Statement of Grant Income and Expenditure	ASA 805	Illustration 2
Compliance with the grant agreement	ASAE 3000	Section titled "Preparing the Assurance Report"
	ASAE 3100	Example 1
<i>Limited Assurance</i>		
Statement of employee numbers and labour costs.	ASRE 2405	Example 1

Illustration 2(a)

AUDITOR'S REPORT
[SINGLE SUBJECT SPECIAL PURPOSE FINANCIAL REPORT]
[Fair Presentation Reporting Framework]
[Reporting in accordance with ASA 800 – Corporations Act 2001]

[Appropriate addressee]

Report on the Financial Report[†]

We have audited the accompanying financial report of ABC Company, which comprises the statement of financial position as at 30 June 20XX, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note X to the financial report is appropriate to meet the requirements of [identify legislative requirement if any] and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We have conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company, would be in the same terms if given to the directors as at the time of the auditor's report.

[†] The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

Opinion

In our opinion the financial report of ABC Company is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20XX and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note X, and the *Corporations Regulations 2001*.

*Basis of Accounting*³⁴

Without modifying our opinion, we draw attention to Note X to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature][#]

[Date of the auditor's report][†]

[Auditor's address]

³⁴ The auditor may also restrict distribution and use – see ASA 800 paragraphs 14 and A15.

[#] The auditor's report is signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

[†] The date of the auditor's report is the date the auditor signs the report.

Illustration 2(b)

AUDITOR'S REPORT

[SINGLE-FORM MULTI-SCOPE]

[Reporting in accordance with ASA 805, ASAE 3000, ASAE 3100 and ASRE 2405]

[Appropriate addressee]

We have audited:

- (a) The accompanying statement of grant income and expenditure of ABC Company for the year ended 30 June 20XX, a summary of significant accounting policies and other explanatory information, and Management's attestation statement* thereon (together "the financial statement"). The financial statement has been prepared by management using the cash basis of accounting described in Note X to the financial statement; and
- (b) ABC Company's compliance with the terms of the grant agreement between ABC Company and Government Department X, dated dd mm yy, for the period ended 30 June 20XX (the Grant Agreement).

We have reviewed:

- (c) ABC Company's statement of employee numbers and labour costs required under the Grant Agreement.

Management's³⁵ Responsibility

Management is responsible for:

- (a) The preparation and fair presentation of the financial statement in accordance with basis of accounting described in Note X; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in accordance with the grant agreement;
- (b) Compliance with the terms of the grant agreement;
- (c) The preparation of the statement of employee numbers and labour costs required under the grant agreement; and
- (d) Such internal control as management determines is necessary to:
 - (i) Enable the preparation of the financial statement and the statement of employee numbers and labour costs that are free from material misstatement, whether due to fraud or error; and
 - (ii) Enable compliance with the terms of the grant agreement.

Auditor's Responsibility

Our responsibilities are:

- (a) To express an opinion, based on our audit, on:

* Or other term that is appropriate in the circumstances.

³⁵ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction, or the grant agreement.

- (i) The financial statement; and
 - (ii) ABC Company's compliance, in all material respects, with the terms of the grant agreement; and
- (b) To conclude, based on our review procedures, on the statement of employee numbers and labour costs.

We conducted our audit of the financial statement in accordance with Australian Auditing Standards; our audit of compliance in accordance with ASAE 3100; and our review of the statement of employee numbers and labour costs in accordance with ASRE 2400. The applicable Standards require that we comply with relevant ethical requirements and plan and perform our work to:

- (a) Obtain reasonable assurance:
 - (i) about whether the financial statement is free from material misstatement; and
 - (ii) that ABC Company has complied, in all material respects, with the terms of the grant agreement; and
- (b) Obtain limited assurance as to whether anything has come to our attention that causes us to believe that the statement of employee numbers and labour costs is materially misstated.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement and about the company's compliance with the grant agreement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statement, and to the company's compliance with the grant agreement, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used by management, as well as evaluating the overall presentation of the financial statement.

A review consists of making enquiries and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the statement of employee numbers.

We believe that the audit and review evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion and review conclusion.

Inherent Limitations (include where appropriate under paragraph 80(f) of ASAE 3100)

Because of the inherent limitations of any [details provided as appropriate by the auditor, refer to limitations in evidence gathering procedures and limitations in the responsible party's internal control framework], it is possible that fraud, error or non-compliance may occur and not be detected. An audit is not designed to detect all instances of non-compliance with the terms of the grant agreement [requirements], as an audit is not performed continuously throughout the [period] and the audit procedures performed in respect of compliance with the terms of the grant agreement [requirements] are undertaken on a test basis. The audit conclusion expressed in this report has been formed on the above basis.

Opinion

In our opinion,

- (a) the financial statement presents fairly, in all material respects, the grant income and expenditure of ABC Company for the year ended 30 June 20XX in accordance with the cash

basis of accounting described in Note X and the terms of the grant agreement, dated dd mm yy, with Government Department X; and

- (b) ABC Company has complied, in all material respects, with the requirements of the grant agreement between the company and Government Department X dated dd mm yy, for the year ended 30 June 20XX.

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to Government Department X in accordance with a grant agreement, dated dd mm yy. As a result, the financial statement may not be suitable for another purpose. [If applicable: Our report is intended solely for ABC Entity and Government Department X and should not be distributed to or used by parties other than ABC Entity and Government Department X.]

Use of Report

This compliance audit report has been prepared for ABC Entity and Government Department X in accordance with the requirements of the grant agreement between the entity and Government Department X, dated dd mm yy. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than ABC Entity and Government Department X, or for any purpose other than that for which it was prepared.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the statement of employee numbers and labour costs as at 30 June 20XX is not, in all material respects, fairly presented in accordance with the grant agreement dated dd mm yy with Government Department X.

[Auditor's signature][#]

[Date of the auditor's report][†]

[Auditor's address]

[#] The auditor's report is signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

[†] The date of the auditor's report is the date the auditor signs the report.

Appendix 7

(Ref: Para.71)

CONSIDERATIONS - PRESCRIBED AUDITOR'S REPORTS**Introduction**

The appendix should be read in conjunction with section E of this GS (paragraph 66 onwards).

Section E advocates communication with preparers and users as likely to be the most effective strategy for resolution of issues. When considered appropriate by the auditor, reference to the Department of Finance and Deregulation paper: *Clarification of the terms Audit and Assurance* (Finance Circular 2011/08), may be very helpful in explaining the auditor's position. See Department of Finance website: <http://www.finance.gov.au/>

Prescribed auditor's reports vary significantly in both form and content. These differences arise from a number of reasons, including: the circumstances of the engagement, the specific requirements of the party prescribing the auditor's reports and continued use of historical forms.

In some cases, prescribed reports do not present problems for auditors. However, it is not uncommon for auditor's to be faced with significant difficulties when required to report in a prescribed way. These difficulties include:

- (a) Inconsistencies with the requirements of the AUASB Standards and the underlying frameworks, terminologies and concepts upon which those Standards are based.
- (b) Requirements that contravene an auditor's professional obligations and compliance with applicable ethical standards, especially those relating to "independence".
- (c) Single-form reports that inadequately combine differing subject matters and differing frameworks/criteria.
- (d) Wording that would result in misleading information.
- (e) Wording that does not provide the user with the assurance they seek.

The following Table 8 provides some suggestions that an auditor may consider as well as the matters described in section E of this GS, particularly regarding communications with preparers and/or users.

Table 8: Suggestions to address issues with prescribed auditor's reports.

Issues	Auditor considerations
The form of the financial report referred to in the prescribed auditor's report, such as a single income and expenditure statement, is not presented in accordance with Accounting Standards.	<p>Ordinarily, this would not be an issue if the financial report referred to in the auditor's report:</p> <ul style="list-style-type: none"> • Complies with the requirements governing the preparation of the financial report; and • Is not misleading.
Management or those charged with governance are not required to sign an attestation, or declaration, about the entity's report(s).	<ul style="list-style-type: none"> • Request management to do so, thereby explicitly demonstrating responsibility for the entity's report(s) to users. • If necessary, determine the available evidence, including the contents of the engagement letter in relation to management's acceptance of responsibility for the report(s).

Issues	Auditor considerations
The financial report, referred to in the prescribed auditor's report, does not include a statement of significant accounting policies.	<ul style="list-style-type: none"> • Ask the preparer to include such policies. • If necessary, encourage the preparer to include the basis of accounting (accruals, cash) as a minimum as it is fundamental to users understanding of the financial report. • When necessary, include the basis of accounting in an "Other Matter" paragraph in the auditor's report.
No reference to materiality.	<ul style="list-style-type: none"> • Add relevant wording to the auditor's report. • Consider whether reference to the audit having been conducted in accordance with the AUASB Standards is sufficient <i>implicit</i> indication to address the lack of <i>explicit</i> reference to materiality.
Vague, or no, inclusion of: <ul style="list-style-type: none"> • Reference to the subject matter. • The responsibilities of management and the auditor. 	<ul style="list-style-type: none"> • Add relevant wording to the auditor's report. • When necessary, include relevant wording in an "Other Matter" paragraph in the auditor's report.
Inability to include, where appropriate, modifications to the opinion and/or an "Emphasis of Matter" paragraph or an "Other Matter" paragraph.	See section E.
Statement of auditor's credentials, including independence.	<ul style="list-style-type: none"> • Ordinarily, there should be no issues as such statements are factual and merely serve to confirm the auditor's qualifications to perform the engagement.
Use of terms like "certify" and "correct" which denote <i>certainty</i> .	<ul style="list-style-type: none"> • When possible, amend the prescribed report • Inform the preparer and/or user that <i>certainty</i> is not possible in an assurance engagement where "testing" procedures are adopted. If nevertheless <i>certainty</i> is required, then the engagement should be classified, and understood, as an agreed-upon procedure engagement which will necessitate additional work effort (checking <i>entire</i> populations to achieve <i>certainty</i>) which in turn will attract additional fees.
Opinions, or statements, on an entity's solvency.	<ul style="list-style-type: none"> • Where such opinions or statements relate to, and clearly communicate, a past point in time (as at...), there would ordinarily be no issue so long as the prescribed wording does not imply solvency will continue into the future. • See section B on subject matters unable to be assured.

Appendix 8

(Ref: Para. 101 and 127)

EXAMPLE AUDITOR'S REVIEW REPORT - MSE (OTHER REPORTING RESPONSIBILITIES)

INTRODUCTION

The following example auditor's *review* report illustrates how other reporting responsibilities can be included in the auditor's report.

The example is to be used as a guide only and will need to be modified according to the engagement requirements and the circumstances.

The entity is a small not-for-profit entity that is required to meet the financial reporting requirements of the applicable Act and Regulations. The entity is required to prepare, and lodge with the Regulator, an annual financial report together with the related independent auditor's *review* report. The Regulator accepts general purpose or special purpose financial reports – the entity chooses the latter.

The example is a single-form multi-scope auditor's *review* report that addresses two subject matters:

1. Review of an annual special purpose financial report in accordance with the applicable Act and Regulations.
 - (a) Although *not* required to review and conclude on the entity's compliance with the regulations, the auditor is required, by the regulations, to report any, and all, non-compliance with particular specified regulations.
 - (b) This reporting requirement does not mean the auditor needs to set materiality for the review of the financial report at zero in order to check 100% compliance with the specified regulations. The requirement means the auditor is to report any and all non-compliance with regulations *that came to the auditor's attention during the course of the review* (or audit as the case may be). [See further discussion at paragraphs 99-100 of this GS]

In this example, the entity did not comply with 2 separate specified regulations, the effects of which on the auditor's review report are:

Non-compliance with specified regulations	Non-compliance with specified regulations	Non-compliance with specified regulations
Failing to provide the auditor with all information, explanation and assistance necessary for the conduct of the review. This failure relates to a material component of inventories.	As the auditor has been unable to obtain the information that the auditor required, a limitation on scope exists and accordingly results in a qualification of the auditor's conclusion.	The auditor discharges the requirement in the regulations to report the non-compliance by way of appropriate information in the "Basis for Qualified Conclusion" paragraph.
Failing to maintain a particular record required by the regulations. This failure relates to a	This non-compliance with regulations does not affect the auditor's conclusion on the annual financial report.	The auditor discharges the requirement in the regulations to report the non-compliance by way of appropriate information in the "Report on Other Legal

Non-compliance with specified regulations	Non-compliance with specified regulations	Non-compliance with specified regulations
record that is not associated with the financial report, was inadvertent, was detected by the entity after only 2 days, was properly and immediately corrected and was reported to the regulator by the entity.		and Regulatory Requirements” paragraph

2. A grant acquittal – statement of income and expenditure (only).

The illustrative auditor’s report has been developed using the principles illustrated in Appendix 6 and the requirements of ASRE 2400.

EXAMPLE AUDITOR’S REVIEW REPORT **[SINGLE-FORM MULTI-SCOPE]**

[Special Purpose Financial Report – Qualified Conclusion (insufficient evidence) Grant Acquittal (income and expenditure statement), and Other Reporting Responsibilities] (Fair Presentation Framework)

[Appropriate Addressee]

Report on the Financial Report and the Statement of Grant Income and Expenditure³⁶

We [I] have reviewed:

- (a) The accompanying financial report, being a special purpose financial report of [name of entity], which comprises the statement of financial position as at 30 June 20XX, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year [period] ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and management’s declaration; and
- (b) The accompanying statement of grant income and expenditure of ABC Entity for the year ended 30 June 20XX, a summary of significant accounting policies and other explanatory information, and management’s attestation statement^{*} thereon (together “the financial statement”). The financial statement has been prepared by management in accordance with a cash basis of accounting described in Note X to the financial statement.

Management’s Responsibility

Management is responsible for:

- (a) The preparation and fair presentation of the financial report and has determined that the basis of preparation described in Note X to the financial report is appropriate to meet the

³⁶ The sub-title “Report on the Financial Report and the Statement of Grant Income and Expenditure” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements”, or other appropriate sub-title, is not applicable.
^{*} Or other appropriate term.

requirements of [identify legislative requirement], [and the needs of the members (or other appropriate terms)];

- (b) The preparation and fair presentation of the financial statement in accordance with basis of accounting described in Note X; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in accordance with the grant agreement; and
- (c) Such internal control as management determines is necessary to enable the preparation and fair presentation of the financial report and the financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibilities are to conclude, based on our review procedures, on the financial report and the statement of grant income and expenditure. We [I] conducted our review in accordance with applicable Standards on Review Engagements which require us to conclude whether anything has come to our attention that causes us to believe that the financial report, taken as a whole, or the financial statement, are not prepared in all material respects in accordance with the applicable financial reporting framework. The Standards also require us to comply with relevant ethical requirements.

A review of a financial report and a financial statement in accordance with the Standards on Review Engagements is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us [me] to obtain assurance that we [I] would become aware of all significant matters that might be identified in an audit. Accordingly, we [I] do not express an audit opinion.

Basis for Qualified Conclusion

We [I] were [was] not given all information, explanation and assistance necessary by [name of entity] for the conduct of the review of the financial report in relation to a material component of inventories. This is a deficiency under section XX of the XX Act/Regulations. We [I] are [am] unable to adopt alternative procedures regarding [identify the component of inventories] included in the statement of financial position at a total amount of xxx as at 30 June 20XX. Accordingly, we [I] were [was] unable to conclude on this inventory balance or determine whether any adjustments might have been necessary.

Qualified Conclusion

Based on our [my] review, which is not an audit, with the exception of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our [my] attention that causes us [me] to believe that:

- (a) The financial report of [name of entity] does not satisfy the requirements of section XX of the XX Act/Regulations, including:
 - (i) presenting fairly the entity's financial position as at 30 June 20XX and of its financial performance and cash flows for the year [period] ended on that date; and
 - (ii) complying with Australian Accounting Standards to the extent described in Note X, and section XX of the XX Act/Regulations.
- (b) The financial statement does not present fairly the grant income and expenditure for the period ended 30 June XX in accordance with the basis of accounting described in Note X and the terms of the grant agreement dated -- -- with Government Department X

Basis of Accounting

Without further modifying our [my] conclusion, we [I] draw attention to:

- (a) Note X to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the responsible entities' financial reporting responsibilities under the Act. As a result, the financial report may not be suitable for another purpose.
- (b) Note X to the financial statement, which describes the basis of accounting. The financial statement has been prepared for the purpose of fulfilling the entity's reporting responsibilities under the grant agreement with Government Department X, dated -- --, for the year ended 30 June 20XX. As a result, the financial statement may not be suitable for another purpose.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section XX of the Act, we [I] are required to describe any deficiency, failure or shortcoming in respect of the matters referred to in paragraph XX of the Act/Regulation that came to our attention during the course of our review of the financial report.

In addition to the matter relating to inventory referred to in the Basis for Qualified Conclusion paragraph, our review on the financial report is not modified in respect of the following matter(s) because, in our [my] conclusion, it [they] has [have] been appropriately addressed by [name of registered entity] and is [are] not considered material in the context of the review of the financial report as a whole:

- (a) Name of entity] failed to keep [name of other record] as required by section XX of the Act/Regulation for the period 1 July 2013 to 2 July 2013 inclusive.]
- (b) [Details of other non-compliance, as applicable].

[Auditor's signature]

[Date of the auditor's review report]

[Auditor's address]

Appendix 9

(Ref: Para. 28)

UNDERSTANDING THE SECTIONS OF A MSE

Mandate or Requirement	Level of Assurance	Subject Matter	Criteria	Subject Matter Information (Outcome)	AUASB Standards
Assurance on a financial report or financial statement	Reasonable (R) [audits] Limited (L) [reviews]	Financial performance and financial position	Applicable financial reporting framework (e.g. Accounting Standards)	A financial report or financial statement	All relevant Auditing and Review Standards. Audit reporting under relevant ASA 700 series or ASA 800 series. Review reporting under relevant ASRE series.
Compliance with laws, regulations or contracts	R + L	Entity's activities	Requirements stipulated in laws, regulations or contractual arrangements	Attestation or declaration as to compliance; or the auditor's opinion or conclusion in a direct engagement	ASAE 3000 and ASAE 3100
Design and operation of internal controls	R + L	Controls within an entity or a service organisation or a shared services centre	A documented controls framework or specified control objectives	Attestation or declaration as to the suitability, design and operating effectiveness of controls; or the auditor's opinion or conclusion in a direct engagement	ASAE 3000, ASAE 3150 and ASAE 3402
Prospective financial information	R + L	Assumptions and methodology used as basis for prospective financial information (forecasts)	Reasonableness of assumptions and calculation methodology used. Reasonableness of reporting disclosures	Forecasts, projections	ASAE 3000 and ASAE 3450
Contractual arrangement	No assurance, only agreed procedures	According to the agreement	n/a	Report of factual findings	ASRS 4400

Appendix 10

(Ref: Para.)

Intentionally left blank

To be removed prior to issuance of GS 022 if not used

Draft

Appendix 11

(Ref: Appendix 3)

CHARITIES AND NOT-FOR-PROFIT

ACNC requirements may relate to a SSGA and/or differing reporting frameworks that therefore constitute a MSE. When considering an engagement relating to an ACNC registered entity, auditors clarify the ACNC's reporting requirements.

1. In December 2012, the Australian Government established the Australian Charities and Not-for-Profit Commission (ACNC) as an independent regulator. The ACNC has been set up to achieve the following objectives:
 - (a) Maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency.
 - (b) Support and sustain a robust, vibrant, independent and innovative not-for-profit sector.
 - (c) Promote the reduction of unnecessary regulatory obligations on the sector.
2. Entities in this sector, including companies limited by guarantee, commonly receive grants. Accountability for such grants are ordinarily subject to grant agreements which should be considered in context with other reporting requirements under the ACNC legislation.
3. It is important to note the CGG requirement that unless agency staff has assessed a granting activity as higher risk, a financial acquittal should *not* be sought from an entity regulated by the ACNC. Agency staff may, however, seek certification that grant funds were spent for the purpose of the grant and identification of any unspent amounts. See Commonwealth Grant Guidelines at Appendix 3, for further information.
4. ACNC website: www.acnc.gov.au