GS 023
(Revised June 2022)

Guidance Statement GS 023
Special Considerations – Public Sector Engagements

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

Australian Government
Auditing and Assurance Standards Board

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Important Note

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

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

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

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

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AUTHORITY STATEMENT

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

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

This Guidance Statement does not prescribe or create new requirements.

Dated: 7 June 2022

W R Edge
Chair - AUASB

Conformity with International Pronouncements

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

GUIDANCE STATEMENT GS 023

Special Considerations – Public Sector Engagements

Application

1. This Guidance Statement (GS) has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide supplementary guidance to public sector auditors and assurance practitioners in implementing and applying AUASB Standards[1] to audits, reviews, other assurance and related services engagements in the public sector (public sector engagements).

2. The aim of the AUASB in issuing this GS is to promote consistent application of AUASB Standards in the public sector to enhance the quality of public sector audit and assurance engagements and their resulting reports.

3. This GS is to be read and applied in conjunction with applicable AUASB Standards, which set out the minimum requirements and related application and other explanatory material that are to be applied in conducting public sector engagements. This GS does not establish or extend the requirements (or basic principles or essential procedures) under existing AUASB Standards for public sector engagements.

4. Auditors and assurance practitioners should exercise professional judgement when using this GS.

Issuance Date

5. This GS is issued on 7 June 2022 by the AUASB and replaces GS 023 *Special Considerations – Public Sector Engagements*, issued in December 2021.

Introduction

Structure and Scope of this GS

6. This GS comprises two parts:

   (a) Introductory guidance material

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

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

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

(b) Topic specific guidance material

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

7. Whilst the AUASB generally does not set industry or sector specific standards, the AUASB may from time to time produce industry or sector specific guidance materials in the form of authoritative AUASB GSs and/or other non-authoritative materials. The AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications* (AUASB Due Process Framework) outlines the circumstances that may lead to the AUASB issuing guidance materials and identifies factors the AUASB will consider in determining the form of guidance that will be appropriate in the circumstances.[2]

8. AUASB GSs are authoritative AUASB pronouncements[3] that are formally approved and issued by the AUASB. GSs are developed, issued and maintained in accordance with the AUASB's Due Process Framework.[4] Refer to the *Foreword to AUASB Pronouncements* for further information on the purpose, authority and legal status of GSs.[5]

9. The topic specific guidance included in this GS aims to support public sector auditors and assurance practitioners in implementing and applying the AUASB Standards in practice by providing supplementary guidance in relation to the definitions, objectives, requirements and application and explanatory material contained in the standards.

10. The main objective is to provide additional guidance to support public sector auditors and assurance practitioners to either comply with the requirements in AUASB Standards or identify appropriate alternative procedures which will enable the auditor/assurance practitioner to achieve the objective of a standard.

11. This GS covers only selected issues identified as presenting challenges in applying AUASB Standards to public sector engagements. It includes application and explanatory material on specific matters for the purposes of understanding and complying with the relevant requirements in AUASB Standards. In particular, guidance may:

    - explain more precisely what a requirement means or is intended to cover;
    - provide background information on matters addressed in an AUASB Standard, for example, to explain circumstances that may need further consideration in the public sector;
    - include examples that illustrate how the requirements might be applied and/or provide examples of procedures that may be appropriate in the circumstances; and
    - include illustrative examples of auditor reports or other documents.

[2] See AUASB Due Process Framework, Sections IV, IX and X.
[3] See *Foreword to AUASB Pronouncements*, paragraphs 10-23.
[4] See AUASB Due Process Framework, Section IX.
[5] See *Foreword to AUASB Pronouncements*, paragraphs 20-23.

Public Sector Engagements

12. Law or regulation governing public sector engagements generally mandate the appointment of a public sector auditor/assurance practitioner and commonly set out the public sector auditor's/assurance practitioner's responsibilities, functions and powers. Law or regulation may also prescribe other aspects of the terms of the engagement, including the objective and scope of the engagement and the responsibilities of management. There may be instances where the mandate or authority to perform an engagement and the public sector auditor's/assurance practitioner's powers reside in different pieces of legislation. AUASB Standards do not override law or regulation in such matters.

13. Where a public sector engagement is mandated by legislation, the public sector auditor/assurance practitioner cannot avoid such an obligation and, consequently, may not be in a position to not accept (that is, to decline) or not continue (that is, to withdraw from) the engagement. A public sector auditor/assurance practitioner may be required to perform these types of engagements whether or not the preconditions for the engagement exist and whether or not management's agreement on the terms of the engagement has been obtained. Consequently, the acceptance and continuance requirements of AUASB Standards may not be applicable to the public sector for legislatively mandated engagements.

14. In addition to legislatively mandated audits and assurance engagements in the public sector, the appointment of a public sector auditor/assurance practitioner may also be included as a requirement of an agreement, such as a Commonwealth agreement for the provision and acquittal of funding by the States and Territories or grant agreements from governments to Non-Government Organisations (NGO) service providers.

15. In Australia, Commonwealth, State or Territory Auditors-General are responsible for undertaking the majority of public sector engagements. Engagements at local government level are the responsibility of State or Territory Auditors-General in some jurisdictions, while in others, local government engagements are conducted by private sector auditors or audit firms, with or without the Auditor-General having an oversight role. Statutory bodies may be audited by private sector auditors or audit firms but this will depend on the specific legislation under which these entities operate.

16. Auditors-General exercise their public sector audit function within their specific jurisdictional legislative mandate, which governs the independence of their role and power of discretion in performing certain duties.

17. The responsibility to form an opinion or conclusion and to report outcomes is usually the domain of the respective Auditor-General. Depending on the legislative mandate in each jurisdiction, an Auditor-General may in some cases:

    (a) engage a private sector auditor or audit firm under contract to assist and/or undertake certain functions of the Auditor-General; and/or

    (b) delegate to a person employed in the Auditor-General's Office, or to a private sector auditor or audit firm, the power to express an opinion or conclusion, or to make a report.

18. In addition to legislatively mandated engagements, legislation may enable an Auditor-General to undertake audits or audit-related services by arrangement - that is, a public sector entity, a minister or the Legislature may request audits or audit-related services under an agreement with the Auditor-General. These engagements may be requested as a once-off arrangement or

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

19. Auditors-General in Australia may be mandated to perform different types of assurance engagements on any subject of relevance to the responsibilities of management and those charged with governance of a public sector entity and the application of public resources. The extent or form of these engagements and the reporting thereon will vary according to the legislated mandate of the Auditor-General concerned and any legislation applicable to the entity which is the subject of the audit.

20. Depending on the legislative mandate in each jurisdiction, Auditors-General may be required to:

    (a) conduct public sector engagements in accordance with applicable AUASB Standards;

    (b) have regard to recognised professional standards; or

    (c) set their own standards. Standards established by an Auditor-General may incorporate AUASB Standards.

Financial Audits

21. In the Australian public sector, the scope and nature of financial audits conducted by public sector auditors are governed by relevant enabling legislation in each different jurisdiction.

22. For the purpose of this GS, the term "financial audit" means an audit that focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.[6]

23. For financial audits conducted under AUASB Standards, the public sector auditor applies the Australian Auditing Standards (ASAs) relevant to the engagement. As described in the Preamble to AUASB Standards[7], AUASB Standards are:

    (a) neutral with respect to the audited or reviewed entity's sector and size; and

    (b) intended to be applied, as appropriate, to all audit, review, assurance and related service engagements conducted by an auditor or audit firm in both the public and private sectors[8].

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

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

[6] INTOSAI Standard ISSAI 100 *Fundamental Principles of Public-Sector Auditing*, paragraph 22.
[7] See Auditing Standard ASA 101 *Preamble to AUASB Standards*, paragraphs A11-A15.
[8] In the public sector, "audit firm" is to be read as referring to a public sector equivalent, for example, an Auditor-General's Audit Office.

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

25. The scope of an annual audit in the public sector may include, in addition to the audit of the financial report of a public sector entity, an audit of service performance (for example, an audit of annual performance information or performance statements) and/or elements of a compliance engagement (for example, reporting on compliance with key legislation). A public sector auditor may also perform other discretionary assurance engagements such as performance audits, reviews or assurance engagements on controls (refer to paragraph 29 below).

26. Specific requirements may exist within the legislation governing the audit mandate, for example, the public sector auditor may be required to report directly to a minister, the Legislature or the public if the entity attempts to limit the scope of the audit. Furthermore, law or regulation may establish additional reporting requirements for the auditors of public sector entities, for example, to prepare a separate report on instances of non-compliance with law or regulation to the Legislature or other governing body, or communicating such instances in the auditor's report on the financial report.

27. In the public sector, there are many users of financial information including, but not limited to, the audited entity, ratings agencies, analysts, lending institutions, service providers and recipients, parliament, ministers and the public. In order to meet the information requirements of a broad range of users, a public sector auditor's mandate may require, or allow for, reporting on non-compliance with laws or regulations and unacceptable conduct (such as lack of probity) in the public sector. Auditors-General may elect or may be required to address probity and public interest considerations in their annual financial audits. This may necessitate a further broadening of the scope of an audit beyond the scope envisaged by the ASAs under which the audit is performed. The broadening of scope may present a challenge for the auditor in determining how to effectively report on the outcome of any additional work the auditor may decide to undertake within the structure of the opinion normally required by the relevant ASAs.

28. The objectives of a financial audit in the public sector therefore may be broader than expressing an opinion on whether the financial report has been prepared, in all material respects, in accordance with an applicable financial reporting framework. The ASAs and ASAEs provide minimum requirements and application material; however, as they are written to be sector neutral, additional guidance may be required to support the broader scope of engagements undertaken in the public sector to promote consistency.

Other Assurance and Assurance Related Engagements

29. For other public sector assurance and assurance related engagements required to be conducted under AUASB Standards, the public sector assurance practitioner applies the relevant requirements of the applicable AUASB Standard relevant to the engagement. For example:

    - Reviews of financial reports or historical financial information (limited assurance engagements) — refer to the applicable Standards on Review Engagements.

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

- Assurance engagements on subject matters other than historical financial information — refer to Standard on Assurance Engagement ASAE 3000.[10]
- Compliance engagements — refer to Standard on Assurance Engagement ASAE 3100.[11]
- Assurance Engagements on Controls — refer to Standard on Assurance Engagement ASAE 3150.[12]
- Performance engagements — refer to Standard on Assurance Engagement ASAE 3500.[13]

Addressing Challenges associated with applying AUASB Standards in the Public Sector

30. As noted in paragraph 23, AUASB Standards are designed to be neutral with respect to the sector and the size of the entity subject to the engagement, and are intended to be applied, as appropriate, to engagements in both the public and private sectors.

31. Where appropriate, additional considerations specific to the public sector are included within the application and other explanatory material of AUASB Standards. These additional considerations assist in the application of the requirements of the standards in such engagements. However, these considerations and associated guidance are not extensive and, as a result, the standards focus largely on engagements undertaken in the private sector where the objective is to form a conclusion in respect of compliance with a reporting framework.

32. Due to the differences between engagements undertaken in the public and private sectors, public sector auditors and assurance practitioners may face challenges in applying the AUASB Standards in the public sector. For example, practitioners may need to apply professional judgement in:

    - interpreting terminology used in AUASB Standards that is not usually found in the public sector, for example, terms such as “client”, “listed entity”, “firm”, “partner”, “engagement partner” and “lead assurance practitioner”.
    - applying AUASB Standards in delivering audit mandates established within legislation.
    - distinguishing a compliance engagement from a financial audit with elements of compliance with law or regulation.
    - determining materiality levels for public sector engagements where, for example, application of private sector benchmarks may not be appropriate and where the impact of qualitative considerations may be more prevalent.
    - identifying and communicating matters required to be reported by law or regulation within the structure of the opinion promulgated by the relevant AUASB Standards.

[10] See ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information.*
[11] See ASAE 3100 *Compliance Engagements.*
[12] See ASAE 3150 *Assurance Engagements on Controls.*
[13] See ASAE 3500 *Performance Engagements.*

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

Structure of Topic Specific Guidance

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

(a) Application

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

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

It includes a clear statement that the GS:

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

(b) Introduction (where applicable)

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

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

(c) Scope

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

(d) Definitions

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

(e) Guidance

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

Drafting Conventions

34. The following drafting conventions apply to guidance material included in this GS:

    (a) Words such as "should", "shall" or "must", or any other term that denotes something as a mandatory requirement, are not to be used, except when repeating or referring to the requirements from relevant AUASB Standards.

    (b) Guidance supports the general requirements and application and explanatory material contained in AUASB Standards, and:

        (i) does not extend the requirements of the public sector auditor/assurance practitioner as stated in the AUASB Standards;

        (ii) refers to the requirements in the AUASB Standards to which the guidance is supplementary; and

        (iii) is consistent with the relevant AUASB Standards the guidance relates to.

    (c) The present tense of verbs is used when it is the best form of expression. Use of the present tense does not create or imply mandatory requirements.

    (d) The word "including" means a list of items or examples is provided but the list does not purport to contain all relevant items or examples and intentionally is not exhaustive.

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

Application

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

Introduction

36. ASA 210 deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes:

   (a) establishing that certain preconditions for an audit are present before accepting the engagement; and

   (b) confirming that there is a common understanding between the auditor and the entity of the terms of the audit engagement.

37. The preconditions for an audit are defined in ASA 210, paragraph 4, to mean the use by management[14] of an acceptable financial reporting framework in the preparation of the financial report and the agreement of management to the premise[15] on which an audit is conducted.

38. In the public sector, law or regulation governing the operations of public sector audits generally mandate the appointment of a public sector auditor and commonly set out the public sector auditor's responsibilities, functions and powers, including the power to access an entity's records and other information. Law or regulation may also prescribe other aspects of the terms of the audit engagement, including the objective and scope of the audit and the responsibilities of management. ASAs do not override law or regulation in such matters.

39. Where the public sector financial audit is mandated by legislation, the public sector auditor cannot avoid such an obligation and, consequently, may not be in a position to not accept (that is, to decline) or not continue (that is, to withdraw from) the engagement. The public sector auditor may be required to perform these types of audits whether or not the ASA 210 preconditions for the audit exist and whether or not management's agreement on the terms of the engagement has been obtained.

40. Consequently, the use of engagement letters may not be a widespread practice in the public sector for audits mandated by legislation. Nevertheless, there may be benefit in communicating a common understanding of the terms of the audit engagement between the auditor who is carrying out the audit and those charged with governance of the public sector

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

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

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

41. Use of ASA 210 terminology such as to "accept" or "continue" an audit engagement, or to "agree" the terms of an engagement with management may be problematic in the public sector context for audits mandated by law or regulation.

42. This section of the GS provides additional guidance to reflect the public sector perspective on 'agreeing' the terms of financial audit engagements undertaken in the public sector.

Scope of ASA 210 Supplementary Guidance

43. This section of the GS provides supplementary guidance for public sector auditors related to the following requirements of ASA 210:

    (a) Preconditions for an Audit – Obtain agreement of management that it acknowledges and understands its responsibility (ASA 210, paragraph 6(b)).

    (b) Agreement on Audit Engagement Terms (ASA 210, paragraphs 9-13).

Guidance

Preconditions for an Audit

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

44. An audit in accordance with ASAs is conducted on the premise that management has acknowledged and understands that it has the responsibilities set out in paragraph 6(b) of ASA 210. To avoid misunderstanding about the respective responsibilities of management and the auditor, ASA 210, paragraph 6(b), requires the auditor to obtain the agreement of management that it acknowledges and understands these responsibilities. In the private sector, this acknowledgement from management is usually obtained as part of agreeing and recording the agreed terms of the audit engagement in an engagement letter or other suitable form of written agreement, in accordance with the requirements of ASA 210, paragraphs 9-12.

45. However, the terms of an audit engagement in the public sector are normally mandated by legislation and therefore not subject to traditional contractual agreement with management. The legislated right in itself is an implicit agreement between the parties of the terms of the engagement. ASA 210 addresses this situation and outlines that if, in the circumstances described in paragraphs 10 and 11 of the Standard, the public sector auditor concludes that it is not necessary to issue an engagement letter or other suitable form of written agreement, the auditor is required only to obtain the acknowledgement of management that it understands that it has the responsibilities set out in paragraph 6(b) of the Standard.

46. In accordance with paragraph 12 of the Standard, the written acknowledgement from management may use the wording of the law or regulation if such law or regulation establishes responsibilities for management that are equivalent in effect to those described in paragraph 6(b) of the Standard. For those responsibilities that are not prescribed by law or regulation such that their effect is equivalent, the written acknowledgement uses the description in paragraph 6(b) of the Standard.

47. When obtaining the agreement of management that it acknowledges and understands its responsibility as required in ASA 210, paragraph 6(b), the public sector auditor also takes into account the fact that the responsibilities of management in the public sector may be broader,

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

Agreement on Audit Engagement Terms

Legislatively Mandated Financial Audits

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

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

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

49. Whether or not to formally record the terms of the engagement in an engagement letter or other suitable form of written agreement depends on whether law or regulation prescribes in sufficient detail the matters described in ASA 210, paragraph 10.

50. If law or regulation prescribes in sufficient detail the matters described in paragraph 10 of the Standard, paragraph 11 of the Standard permits the auditor to include in the engagement letter only reference to the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b).

51. In circumstances where paragraph 11 of the Standard applies, the public sector auditor is therefore not required to issue a full engagement letter[16] or to obtain management's formal agreement to the terms of the engagement.[17] However, the public sector auditor is still required to obtain the written acknowledgement from management that it understands that it has the responsibilities set out in paragraph 6(b) of the Standard (see paragraphs 44-47 above).

52. For paragraph 11 to apply, ASA 210 requires the relevant law or regulation includes all the elements outlined in paragraph 10 of the Standard and prescribe in sufficient detail the terms of the audit engagement. The law or regulation describing the elements in paragraph 10 may be from different sources.

53. Where law or regulation does not include all the elements outlined in paragraph 10 of the Standard or is not sufficiently detailed, paragraph 11 of the Standard does not apply and the public sector auditor will be required to include the relevant detail in an engagement letter (or equivalent form of communication) in order to comply with ASA 210, paragraph 10.

54. In circumstances where paragraph 11 of the Standard applies (see paragraphs 50-52 above), the public sector auditor may nonetheless consider that there may be benefit in communicating the matters described in paragraph 10 of the Standard in an engagement letter (or equivalent form of communication) for the information of management. The objective of the public sector auditor in documenting and communicating the terms of the engagement in these circumstances, is to confirm that there is a common understanding of the terms between the auditor who is carrying out the audit and management of the public sector entity, to clarify any

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

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

matters that may be misunderstood[18] and to provide for an efficient and quality audit to be carried out.

55. Use of an engagement letter (or equivalent form of communication) that draws together the detail of the terms of the engagement may be particularly beneficial where there are matters that are unique to the engagement, or where the matters described in paragraph 10 of the Standard are located in more than one piece of legislation.

56. In these circumstances, the engagement letter (or equivalent form of communication) is not an agreement (contract) nor is it an audit proposal, and neither the public sector entity nor the public sector auditor can use the engagement letter as a vehicle to negotiate or vary the terms of the engagement in the letter. The engagement letter (or equivalent form of communication) communicates the terms of the engagement, as determined under law or regulation, to the public sector entity. The auditor is required to obtain acknowledgement that management understands its responsibilities - not agreement of the terms of the engagement outlined in the letter.

57. Documentation of the terms of the engagement cannot reduce obligations imposed by law or regulation and the public sector auditor is required to refer to the applicable provisions of the law in undertaking the engagement.

Form and Content of Engagement Letter or Equivalent Communication

58. As noted in ASA 210, paragraph A23, it is in the interests of both the public sector entity and the public sector auditor that an engagement letter or equivalent communication is issued before the engagement commences to help avoid misunderstandings with respect to the engagement.

59. On recurring engagements, the public sector auditor applies professional judgement to determine whether there is a need to periodically re-issue the engagement letter and/or obtain re-acknowledgement from management that it understands its responsibilities, for example, taking into account the factors outlined in ASA 210, paragraph A30.

60. Typically, engagement letters issued for new recurring engagements may represent a standing arrangement until such time as the public sector auditor issues a new letter due to changes in the conditions or the scope of the engagement, or significant changes in the senior management of the public sector entity or in management's responsibilities.

61. The public sector auditor may also consider drafting an engagement letter that extends beyond one year. For example, an Auditor-General may decide to publish an engagement letter to Parliament for the life of the Parliament, although no specific response is required or received back.

62. The form and content of the engagement letter may vary according to the nature of the engagement, the terms of appointment of the public sector auditor, and the extent to which the terms of the engagement are prescribed in law or regulation, and may be in a form different to a traditional engagement letter. For example, as detailed in the previous section, in circumstances where law or regulation mandate the appointment of a public sector auditor and prescribe in sufficient detail the terms of the engagement, the auditor is not required to issue an engagement letter that includes all the elements outlined in paragraph 10 of the Standard.

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

63. In circumstances where the public sector auditor concludes that it is not appropriate or necessary to issue a traditional engagement letter or other form of written agreement, the terms of the engagement and other arrangements may be communicated to management at preliminary (entrance) meetings with the entity. Different jurisdictions may use different approaches and different documents[19] for this purpose.

64. The public sector auditor requests management to acknowledge receipt of the engagement letter (or equivalent communication) and that it acknowledges and understands its responsibilities. The auditor may also consider seeking written acknowledgement from management of other aspects of the terms of the engagement[20] or arrangements concerning the engagement. Typically, the auditor obtains such acknowledgement for new engagements, once-off engagements or where there has been changes to the scope of the engagement or changes in senior management of the entity.

65. In the public sector, there may be additional matters besides the examples listed in ASA 210, paragraphs A24-A26, that public sector auditors have to report if they become aware of them during the course of the audit and that may be relevant to the engagement letter. When relevant, other audit objectives stipulated by the mandate may also be included in the engagement letter (or equivalent communication).

66. ASA 210, paragraph A25, recommends that it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report. Public sector auditors may be required to, or may decide to, communicate key audit matters to other parties, such as the Legislature, in addition to management or those charged with governance when relevant legal provisions do exist.

Audits Conducted By Arrangement

67. In addition to legislatively mandated audits, legislation may enable a public sector auditor to undertake audits and audit-related services by arrangement – that is, a public sector entity, a minister or the Legislature may request an audit or review under an agreement with the public sector auditor. These engagements may be requested as a once-off arrangement, or as an annually recurring service. These types of engagements are often referred to as "by-arrangement" or "by-request" audits or reviews. A public sector auditor may only undertake these types of engagements where it falls within the auditor's legislative powers.

68. As these types of engagements are not legislatively mandated, the public sector auditor, in limited circumstances, may have discretion on whether to accept, or continue with, the engagement (for example, when requested by a public sector entity). However, legislation may provide for the public sector auditor to undertake these types of engagements at the request or direction of a Minister or the Legislature. Where this is the case, the public sector auditor will not generally have discretion to decline the request and may not be required to obtain agreement from the auditee of the terms of the engagement.

69. For these types of engagements, the public sector auditor complies with the relevant requirements of ASA 210 as applicable to the engagement. This may include agreeing the terms of the engagement, which includes the matters set out in paragraph 10 of ASA 210, with

[19] For example, overall planning or strategy type documents are often used to communicate the objective and scope of the engagement.
[20] For example, the objective and scope of the engagement, the responsibilities of the auditor and identification of the applicable financial reporting framework for the preparation of the financial report.

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

Auditing Standard ASA 570 *Going Concern*[21]

Application

70. This section of the GS provides supplementary application and other explanatory material in relation to selected issues identified as presenting challenges in applying Auditing Standard ASA 570 *Going Concern* in the public sector. It does not contain any further requirements for the conduct of the audit. It is to be read and applied together with ASA 570.

Introduction

71. Financial reporting frameworks applicable in Australia generally require the adoption of the going concern basis of accounting in financial reports, except in circumstances where management of an entity intends to liquidate the entity or to cease trading or has no realistic alternative in doing so. This concept applies even when there are uncertainties about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in the future. However, these reporting frameworks require such uncertainties to be disclosed in the financial report when they are material.[22]

72. Under the going concern basis of accounting, the financial report is prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.[23]

73. ASA 570 clarifies that management's use of the going concern basis of accounting is also relevant to public sector entities.[24] However, as the concept of going concern as described in AASB 101/ASA 570 is generally more relevant to for-profit commercial entities (whether operating in the private sector or public sector), it may need to be interpreted and applied differently for public sector entities responsible for providing significant government functions on a non-commercial basis.

74. Cash flow projections and other financial metrics-based criteria traditionally used in making going concern assessments are often less relevant in the public sector for those entities that are funded by government through annual appropriations and grants, where the focus is more on whether an entity is sufficiently supported by the government and to what extent the continuation of its functions is protected. Cessation of a public sector entity is most likely to result from a government policy (political) decision to discontinue an entity in its entirety, merge or amalgamate one or more public sector entities, privatise the entity, or privatise all or part of the functions delivered by the entity. Therefore, the events or conditions which may cast significant doubt on a public sector entity's ability to continue as a going concern may be different to the factors faced in the private sector.

75. To effectively plan and implement audit procedures that appropriately respond to going concern related risks, public sector auditors require a clear understanding of how the concept of going concern is applied to the public sector entity they are auditing. A lack of

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21 In developing this section of the GS, the AUASB considered relevant guidance to public sector auditors on the topic of going concern included in the UK Financial Reporting Council's Statement of Recommended Practice – Practice Note 10 *Audit of financial statements and regularity of public sector bodies in the United Kingdom* (2020).

22 For example, see Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, paragraphs 25-26.

23 ASA 570, paragraph 2.

24 ASA 570, paragraph A2, provides limited application guidance relevant to the public sector in the form of examples of situations where going concern risks may arise in the public sector and of events and conditions that may cast significant doubt on an entity's ability to continue as a going concern.

understanding of how the going concern concept applies in the context of public sector reporting may lead to public sector auditors applying unnecessary or inappropriate audit procedures.

76. Public sector auditors may need to obtain a detailed understanding of what, if any, going concern risks apply to the public sector entity and on what basis the going-concern assumption is appropriate. For example, whilst some public sector entities may face funding shortfalls or liquidity concerns, management's use of the going concern assumption may still be appropriate based on the assumption that the functions provided by the public sector entity will continue within government, even if not within that entity if it is abolished. As a consequence, the nature and source of evidence public sector auditors obtain may be different when compared to the private sector.

77. Whilst the public sector auditor must determine that the use of the going concern basis of accounting is appropriate for each public sector entity in accordance with the requirements of ASA 570, there also may be other forms of public reporting (such as periodic reports to parliament covering the whole of government or specific public sector segments) where the public sector auditor may highlight significant financial sustainability issues relating to an individual or group of public sector agencies. Though reporting on these financial sustainability issues may be deemed in the public interest, it is not a substitute for any reporting requirements in ASA 570 and falls outside the scope of this GS.

Scope of ASA 570 Supplementary Guidance

78. This section of the GS provides supplementary guidance to reflect the public sector perspective on going concern related to:

    (a) The concept of going concern in the public sector (ASA 570, paragraphs 2 and A2).

    (b) Risk assessment procedures and related activities (ASA 570, paragraphs 10-11 and A3-A4, A7).

    (c) Evaluating management's assessment (ASA 570, paragraph 12 and A8-A10).

    (d) Additional audit procedures when events or conditions are identified (ASA 570, paragraphs 16 and A16-A19).

    (e) Auditor conclusions and reporting (ASA 570, paragraphs 17-24 and A21-A35)

Definitions

79. For the purpose of this GS, the following terms have the meanings attributed below:

    (a) General Government Sector (GGS) – Defined in AASB 1049[25] (Appendix A) and the ABS GFS Manual[26].

    (b) 'Machinery of Government' (MOG) change – A MOG change refers to a restructure of existing government arrangements in the public sector that may involve the reallocation or reorganisation of government functions, responsibilities and resources between government-controlled entities. MOG changes may be made for a range of

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25 Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.
26 The Australian Bureau of Statistics publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods*.

reasons, including to support the policy and/or political objectives of government. MOG changes can vary in scope and complexity and can involve a combination of:

- abolishing government departments and/or government-controlled statutory bodies;
- creating new government departments and/or government-controlled statutory bodies;
- merging/amalgamating one or more government departments or government-controlled statutory bodies; and/or
- moving functions between government departments and/or government-controlled statutory bodies.

MOG changes may occur at any time, often with little or no notice; however, significant MOG changes usually occur immediately following an election when a new government announces its new ministry and any new administrative arrangements. Changes may also transpire as a result of a legislative change or a government policy decision, such as to privatise a government-controlled entity, transfer a function or outsource a function.

(c) Public Corporations[27] (and quasi-corporations) – The terms ‘Public Corporation’ and ‘quasi-corporation’ are defined in AASB 1049 (Appendix 1) and the ABS GFS Manual. Public Corporations are typically categorised into Public Financial Corporations (PFC) and Public Non-Financial Corporations (PNFC).

(d) Public sector – The combination of the GGS and Public Corporations.

Guidance

Concept of Going Concern in the Public Sector *(ASA 570, paragraphs 2, A2)*

80. In the public sector it may be necessary to consider more than the financial health of an entity based on cash flow projections or other financial metrics-based criteria traditionally used in making going concern assessments in the private sector. There are many examples where public sector entities continually fail tests of liquidity, have accumulated deficits and negative equity, yet continue to operate and deliver their functions as they continue to receive appropriation or grant funding from government.

81. In assessing the appropriateness of the going concern basis of accounting in the public sector, consideration of whether the functions provided by the public sector entity will continue within government, even if not within that entity if it is abolished, is often more relevant in assessing going concern risk than whether the particular public body will continue to exist in its current structure or whether the particular entity is financially sustainable.

82. Cessation of a public sector entity is most likely to result from a government policy (political) decision. As most public sector entities undertake their functions in accordance with statutory requirements imposed by legislation, an act/regulation of Parliament would generally be required to amend or discontinue such functions. However, this may vary across jurisdictions where MOG changes may be permitted using other mechanisms.

[27] Some jurisdictions may use alternative terminology to refer to Public Corporations, such as Government Owned/Controlled Corporations, Government Trading Enterprises or Government Business Enterprises.

83. As the majority of public sector entities exist to deliver essential public functions, it may be reasonable to assume that those functions will continue to be delivered by the public sector, unless there is evidence to the contrary. Therefore, in the absence of any clearly expressed government or parliamentary intention to scale back or discontinue an entity's functions, it may be reasonable to assume that a parliament will continue to provide funding annually through the parliamentary appropriation (budget) process. A government can also intervene to increase funding to an entity or adopt a different delivery model to ensure continuity in provision of functions.

84. Functions are frequently transferred or amalgamated in MOG changes. This may result in the discontinuation of a public sector entity. In these circumstances it may still be appropriate for the discontinued entity to adopt the going concern basis of accounting where it is anticipated that the underlying functions it provides will continue to be delivered by another public sector entity and its assets and liabilities realised in the normal course of business. Whether or not the going concern basis of accounting is appropriate in preparing the financial report of the discontinued entity will depend on the specific circumstances affecting the entity.[28]

85. Certain public sector entities may be expected to operate in a competitive market on a commercial basis and to be primarily self-funded (that is, not reliant on government appropriations and/or grants to fund their operations). For these types of entities, consideration of going concern can be similar to that applied to for-profit commercial entities in the private sector and ASA 570 is generally fit-for-purpose.

Risk Assessment Procedures and Related Activities *(ASA 570, paragraphs 10-11, A3-A4, A7)*

86. In performing the applicable ASA 315[29] risk assessment procedures as required under ASA 570, paragraphs 10-11, the public sector auditor determines a proportionate approach to going concern risk, based on the auditor's understanding of the public sector entity and its environment, the requirements of the applicable financial reporting framework related to going concern, and the entity's system of internal control (for example, in relation to oversight and governance over management's assessment of going concern and the controls in place to identify events or conditions relevant to going concern).

87. In forming a view on a public sector entity's ability to continue its operations, the public sector auditor's consideration of going concern embraces two separate, but sometimes overlapping, factors:

- the more likely risk associated with changes in policy direction (for example, where there is a change in government); and
- the less common operational or business risk (for example, where an entity has insufficient working capital to continue its operations at its existing level and is unable to raise additional capital).[30]

88. ASA 570, paragraph 10, includes a requirement for the public sector auditor, as part of performing ASA 315 risk assessment procedures, to consider whether events or conditions exist that may cast significant doubt on the public sector entity's ability to continue as a going concern. The auditor exercises professional judgement to consider whether the examples of indicators identified in paragraph A3 of the Standard are relevant in the circumstances and, if

[28] Further guidance is provided in paragraphs 115-120 of this GS.
[29] See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.
[30] INTOSAI GUID 2900, paragraph 25.5.

relevant, whether management has included these factors in their going concern assessment. Also, the auditor determines whether there are public sector specific mitigating factors that may need to be taken into consideration.

89. In the public sector, the risk associated with changes in policy direction may be greater than any operational or business-related risks. ASA 570 risk indicators may be more relevant to self-funded corporate and non-corporate entities in the public sector that operate on a commercial basis. These indicators may be less relevant to those government agencies receiving annual appropriations/grants (budget funded).

90. To minimize the risk of changes in government policies not coming to the public sector auditor's attention which could impact on the going concern assumption, the auditor may ascertain through inquiry and review whether:

- the government has announced its intention to review an area of policy affecting the public sector entity;
- a review has been announced and is in progress;
- a review has indicated that the public sector entity could be restructured or that an entity's future may be re-examined; or
- the government has communicated its policy to privatise the activities of the public sector entity.[31]

91. Considerations specific to the public sector that may impact the public sector auditor's assessment of the going concern assumption may include, for example:

- How the entity is funded and the extent to which the entity is reliant on government funding (economically dependent on government versus self-funded and operating on a commercial basis).
- Nature of goods and services provided by the entity (for example, the government is unlikely to not continue to provide health care, provide utilities or continue to register vehicles).
- Uncertainties regarding on-going government funding, for example, an expiring funding agreement or omission from the budget.
- Budget announcements of plans to restructure/abolish/privatise public sector entities.
- Policy decisions that affect the functions provided by the entity.
- Legislative reform changing the legal structure of how functions are to be provided.
- Whether the entity can be wound up without legislative change.
- Timing of Royal Assent of legislation impacting an entity's operations or existence.
- Estimates of revenue or the likelihood of continued revenue streams, including government funding and the donation base.
- Changes to markets/reduction of customers for self-funded agencies.
- Poor financial indicators for a fee for service entity.

[31] INTOSAI GUID 2900, paragraph 25.6.

92. The following are examples of mitigating factors to consider when assessing the validity of the going concern assumption:

- Entities at local government level are often required to maintain delivery of functions essential to local communities and may themselves be revenue-raising bodies (that is, have the power to levy rates or taxes) and may have the possibility, on application, of recovering losses over a period.
- The existence of multi-year funding agreements or other arrangements that will ensure the continued operation of the entity.
- A letter of financial support (or other similar direct confirmation) from a government agency or other parent entity able to provide such support.[32]

The public sector auditor includes their consideration of these factors in the conclusions they draw on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report.

93. In addition to the audit procedures set out in ASA 570, the public sector auditor applies professional scepticism in reviewing the applicable legislative and reporting frameworks, Budget Papers, Budget announcements, media releases, statements of corporate intent, and government funding commitments. The auditor may also read official records of changes in policy and relevant proceedings of the legislature, parliamentary transcripts, gazettal notices, and inquire about matters addressed in proceedings for which official records are not yet available.

Budget-funded government-controlled entities in the GGS

94. The term GGS is defined in paragraph 79 of this GS and typically includes public sector entities established by or through the Australian Constitution or an act/regulation of Parliament. Examples include government departments, local government authorities and other government-controlled statutory bodies that have a primary role to provide government functions, which are mainly non-commercial (non-market) in nature, for the collective consumption of the community. These entities are mainly funded by government through the transfer or redistribution of revenue (budget funded through annual appropriations and/or grants) which is financed by government through taxes and other compulsory levies, and through loans/bond issues[33].

95. Given the statutory nature of these entities and the presumption that the functions provided by these entities will continue to be delivered by the public sector, going concern risk may be assessed as low on the basis that that it can be assumed, in the absence of any clearly stated parliamentary or government intention to amend or discontinue such functions, that the government is likely to continue to provide the minimum amount of financial support necessary to continue these public functions. For these types of entities, the risk associated with changes in policy direction is likely to be greater than any operational or business-related risks.

96. Where continuation of the provision of a function in the future is anticipated, the use of the going concern basis of accounting is likely to be appropriate for these entities other than in exceptional cases (as examples, where an entity's functions are to be discontinued altogether and the entity abolished, or where an entity is to be privatised, or a public/private joint venture

[32] See paragraphs 122-127 of this GS.
[33] Referred to in the public sector as 'the borrowing program'.

entered into). It is also unlikely that a material uncertainty related to going concern will exist in these circumstances – unless there is evidence to the contrary.

97. As the risk in relation to going concern may be lower in these circumstances, the public sector auditor's risk assessment procedures and evaluation of management's going concern assessment focus primarily on whether there is a parliamentary or government legislative intention to amend or discontinue service delivery, rather than around the financial sustainability of the public sector entity.

98. The public sector auditor's risk assessment procedures as required by ASA 570 may include consideration of:

    (a) the statutory nature of the entity and whether there is an expectation that the underlying functions delivered by the entity will continue to be delivered and funded by the public sector notwithstanding any decision to restructure existing government arrangements which may result in the discontinuance of the particular entity;

    (b) the requirements of the applicable financial reporting framework related to going concern (including the requirements to account for and report on MOG changes);

    (c) the entity's risk assessment process to identify events or conditions which may indicate that the functions provided by the entity may no longer continue (which is expected to be proportionate to the low risk that a material uncertainty related to going concern exists);

    (d) factors the auditor may be aware of that could indicate that either the functions delivered by the entity will no longer be provided or that funding for these functions will be discontinued or significantly reduced.

99. The public sector auditor documents the auditor's consideration and assessment of the basis for, and validity of, any assumption that functions are likely to continue.

100. Where the public sector auditor's risk assessment concludes that it may be inappropriate to assume that the functions delivered by the entity will continue to be delivered by the public sector in the foreseeable future, for example, where there is an intention by the government to discontinue the entity's operations altogether (that is, to abolish the entity and cease its functions) or to transfer the delivery of such functions to outside the public sector by privatising the entity, the auditor may need to re-evaluate the planned audit procedures based on the revised consideration of assessed risks in relation to the going concern assumption, and perform alternative procedures to comply with the requirements of ASA 570.

Public sector entities not funded (or not fully funded) by appropriations or grants

101. Certain public sector entities are expected to operate in a competitive market on a commercial basis and to be primarily self-funded (that is, not rely on government appropriations and/or grants to fund their operations). Many government business divisions may also be expected to recover their costs through commercial arrangements.

102. These entities operate in various legal forms such as statutory authorities formed by legislative instruments that define their role and purpose, Public Corporations and quasi-corporations[34], trusts and joint ventures. These entities may be granted varying degrees of autonomy but are

[34] These terms are defined in paragraph 79 of this GS.

ultimately responsible to a relevant government minister. While some of the services provided by these entities would be considered essential services (for example, water delivery services) this is not the case for all.

103. These government-controlled entities and their subsidiaries are typically separate legal entities from the 'government' and going concern risks can arise from, for example, situations where these entities experience financial difficulties, when policy decisions are made that affect the functions provided by the entity, where government support is reduced or withdrawn, or a subsidiary entity is wound up as a result of a decision of the parent entity.

104. For these types of entities, consideration of going concern can be similar to that applied to for-profit commercial entities in the private sector (for example, the public sector auditor may consider knowledge of the business, financial ratios, future forecasts)[35] and ASA 570 is generally fit-for-purpose.

105. Some of these entities may not be financially sustainable on their own and be reliant or semi-reliant on government funding to continue operating in a competitive market. For example, certain Public Corporations that provide essential public services may receive 'Community Service Obligations' from a government (similar to a government subsidy) to compensate these entities for delivering uneconomical but essential services in remote areas or where these entities are impacted by government policy decisions that disadvantage the entity in competing with private sector entities providing similar services.

106. A public sector auditor cannot assume that because an entity is operating in the public sector, a government will automatically support the entity should it experience financial difficulties. The determination of whether the going concern assumption is appropriate in the circumstances, will depend on the facts in each case. Whilst not all are applicable to public sector entities, the public sector auditor still considers the examples of events or conditions that, individually or collectively, may cast significant doubt on the public sector entity's ability to continue as a going concern included in ASA 570, paragraph A3, when determining the level of going concern risk. In particular, the public sector auditor considers whether, without government or other external assistance, the entity will be able to continue operating for at least one year from the date of the auditor's report.

107. In considering going concern for entities that are economically dependent on government funding to continue operating, in addition to the ASA 570 factors related to operational and business risk, the public sector auditor takes into consideration the statutory nature of the entity and the functions it delivers, and whether the underlying functions delivered by the entity are essential or key public functions that are expected to be delivered and funded by a government on a continuing basis. The auditor considers any factors that could signal that either the functions delivered by the entity will no longer be provided or significantly curtailed, or that funding for these functions may be discontinued or significantly reduced.

Evaluating Management's Assessment *(ASA 570, paragraphs 12, A8-A10)*

108. ASA 570, paragraphs 4 and 6, clarifies that whenever the going concern basis of accounting is a fundamental principle in the preparation of a financial report as discussed in paragraph 2 of the Standard, the preparation of the financial report requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

[35] See ASA 570, paragraph A3 for example indicators to consider.

109. In the public sector, management may not always prepare a detailed or explicit going concern assessment, based on the assumption that a government will continue to support the entity regardless of its financial circumstances. Management may also provide only limited assessments, for example, by referring to a passed budget or appropriation bill as evidence that service delivery will continue in the foreseeable future.

110. ASA 570, paragraph 12, includes a requirement for the public sector auditor to evaluate management's assessment of the public sector entity's ability to continue as a going concern. As explained in paragraphs A8-A9 of the Standard:

    (a) this assessment by management forms a key part of the auditor's consideration of management's use of the going concern basis of accounting; and

    (b) it is not the auditor's responsibility to rectify the lack of analysis by management.

111. The degree of analysis by management in support of its assessment depends on the facts and circumstances of each entity. Given the legislative status of, and financial reporting frameworks applicable to, most entities in the public sector, it is likely that, unless there are indications that a government intends to amend or discontinue the delivery of public functions, management's assessment and the auditor's evaluation of management's assessment may be relatively straightforward. Nevertheless, management is still required to make this assessment and to explain the rationale in support of their assessment.

112. ASA 570, Paragraph A9, provides for circumstances where management may reach a conclusion that the going concern basis of accounting is appropriate without performing a detailed analysis, for example, when there is a history of profitable operations and a ready access to financial resources. In these circumstances, the auditor's evaluation of management's assessment of going concern may be made without performing detailed evaluation procedures if the auditor's other audit procedures (which will include the risk assessment procedures referred to in the previous section) are sufficient to enable the auditor to conclude on whether management's use of the going concern basis is appropriate in the circumstances.

Additional Audit Procedures when Events or Conditions are Identified *(ASA 570, paragraphs 16, A16-A19)*

113. In circumstances where there has been an announcement or decision made regarding a MOG change, or a change in legislation or funding arrangements, the public sector auditor performs additional audit procedures in accordance with ASA 570, paragraph 16, to determine whether or not a material uncertainty related to going concern exists.

114. In these circumstances, sufficient appropriate audit evidence in support of management's judgements about going concern can usually be obtained by the public sector auditor and may include gazettal notices, parliamentary transcripts, correspondence with government bodies regarding funding, government budget announcements and Budget Papers.

115. When the public sector auditor becomes aware of information that indicates that a government or parliament has made, or intends to make, a decision which will likely impact the continued operational existence of a public sector entity, the auditor determines whether the functions being provided by the entity to be discontinued will continue to be provided by another public sector entity.

116. Functions are frequently transferred or amalgamated in MOG changes. This may result in the discontinuation of a public sector entity. Whether or not the going concern basis of accounting

is appropriate in preparing the financial report of the discontinued entity will depend on the specific circumstances affecting the public sector entity.

117. Where functions are transferred between government-controlled entities within the GGS, it may still be appropriate for the discontinued entity to adopt the going concern basis of accounting in preparing its final accounts. While legislative reform of this nature may change who manages/provides the function, there is considered to be no impact on the going concern assumption as functions are merely moved around within the government as a single legal entity and functions will continue to be delivered using the net assets transferred to the new or continuing entity. Unless there is evidence to the contrary, it can reasonably be assumed that the assets and liabilities will be realised in the normal course of business in the new or continuing entity – that is, at a fair or agreed value.

118. However, where there is evidence that a public sector entity's functions may be fully discontinued or where functions are transferred from a government-controlled entity in the GGS to a Public Corporation or to a government-controlled private sector entity, which are separate legal entities from the GGS, continued application of the going concern assumption in the discontinued entity may no longer be appropriate.

119. In circumstances where there has been an announcement or decision made to abolish a public sector entity, and legislation is required to be passed to cease the entity, the entity is usually treated as a going concern until the legislation has been enacted (that is, received Royal Assent). Where passage of legislation through Parliament is not required, the responsible Minister may be able to make changes via publication in the Government Gazette.

120. In circumstances where a government has only announced its intention to abolish a public sector entity, this will usually not be sufficient evidence that a government is demonstrably committed to the policy/decision.[36] However, such announcements of a government's intentions, or where a Bill has been introduced to Parliament, are likely to give rise to a material uncertainty for which the public sector auditor considers whether it is necessary to include an Emphasis of Matter paragraph[37].

Public sector entities not funded (or not fully funded) by appropriations or grants

121. For public sector entities referred to in paragraphs 101-107 of this GS, traditional indicators and financial metrics used to assess going concern may be relevant and may signify that a material uncertainty exists, for example, in circumstances where an entity reports accumulated deficits, negative equity or a net liability position. In these circumstances, the public sector auditor performs additional audit procedures in accordance with ASA 570, paragraph 16, to obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists.

External Written Confirmations[38]

122. Public sector auditors are aware that changes in government policy can have a significant impact on the status and functions of public sector entities. However, management and the auditor in most instances may not be aware of the strategic or legislative decisions which may

[36] The government has to demonstrate its commitment, and be sufficiently detailed, for example, via Cabinet approval or where no Cabinet approval, through other binding documentation such as contractual arrangements, evidence of engagement of experts, passing of legislation etc.

[37] Refer to Auditor Conclusions and Reporting in paragraphs 128-129 for further details.

[38] See ASA 570, paragraph A19. Includes a letter of financial support, comfort letter, letter of guarantee, letter of intent.

impact an entity. Changes in government policy can occur at short notice and without consultation.

123. When considering appropriate audit procedures relevant to the requirement in ASA 570, paragraph 16, the auditor may consider whether to obtain direct written confirmation from a central government agency or parent entity regarding any plans that may impact the entity's continued operational existence and/or to confirm the existence, authority and enforceability of arrangements to provide or maintain financial support.[39]

124. When considering requesting such confirmation, the auditor is advised to take account of any constraints imposed by legislation or the political process.[40] Also, in many circumstances, confirmation that financial backing will continue, or future funding will be received, may not be sufficient as meaningful assurance on the future of an entity.[41]

125. When considering requesting direct confirmations, the public sector auditor considers that there may be circumstances where such confirmations may not be forthcoming. For example:

- MOG changes may occur at any time, often with little or no notice. As a result, the government of the day will not generally provide direct confirmation that nothing is likely to change in relation to financial backing or future funding.
- A State or Australian Territory Government may also not be in a position to provide such confirmations as it may itself be highly dependent on, for example, GST funding with no control over changes to the distribution of the GST pool.
- Legislation may contain specific provisions that a government will not guarantee the debts or operations of, for example, a Public Corporation. In these circumstances, a central government department or other government agency will not be in a position to provide confirmation of continued financial support to these entities.

126. In circumstances where the public sector entity's continued use of the going concern basis of accounting is dependent on, for example, a letter of financial support, which the entity and/or public sector auditor was able to secure, the auditor exercises professional scepticism in evaluating the appropriateness and sufficiency of such confirmations as audit evidence. The auditor may consider the following matters:

(a) whether the entity providing the letter of support has the authority to provide the support;

(b) whether the letter of support has been signed by a person with appropriate delegated authority to provide such support;

(c) whether the entity or entities that will be providing the support have the ability to cover the obligations of the entity receiving the support;

(d) whether the amount of support will be sufficient; and

(e) whether one or both parties can terminate the arrangement.[42]

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39 See ASA 570, paragraph A19. In obtaining these confirmations, the public sector auditor complies with the requirements of ASA 505 *External Confirmations.*

40 For example, a parent entity or government may have a policy of not providing letters of support.

41 Paragraph 126 includes examples of matters to consider in evaluating the form and level of commitment provided by such confirmations. A promise to provide funding is not legally binding.

42 See OAG NZ AG ISA (NZ) 570, paragraph A1 (amended).

127. If an adequate confirmation can be obtained, it may be reasonable to conclude that the going concern basis is appropriate. If such confirmation is not forthcoming or where the auditor questions its sufficiency as audit evidence, the auditor considers whether there is a material uncertainty that requires to be reported in the auditor's report.

Auditor Conclusions and Reporting *(ASA 570, paragraphs 17-24, A21-A35)*

128. ASA 570[43] requires the public sector auditor to evaluate, based on the audit procedures performed, whether sufficient appropriate evidence has been obtained to conclude on:

   (a) the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial report;

   (b) whether a material uncertainty related to going concern exists;

   (c) whether going concern matters are adequately disclosed in the financial report; and

   then to report in accordance with ASA 570 requirements.

   ASA 570, [Aus] Appendix 1 includes a useful diagrammatic illustration of the links between going concern considerations and the types of audit opinions that may be appropriate in the circumstances.

129. In circumstances where the public sector auditor has concluded that no material uncertainty exists but the use of the going concern basis of accounting is dependent on a letter of support or other confirmation obtained from a related or other third party, or based on the assumption that a parliament may continue to provide funding to ensure continued delivery of essential public functions, the auditor may consider whether:

   (a) to issue an unmodified opinion;

   (b) it is necessary to include an Emphasis of Matter paragraph[44] in the auditor's report to draw the user's attention to the financial support/economic dependency note disclosure included in the entity's financial report; and

   (c) the matter is a Key Audit Matter[45] to be communicated in the auditor's report, in circumstances when the auditor decides to communicate key audit matters in the auditor's report.

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[43] See ASA 570, paragraphs 17-24.
[44] See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraphs 8-9.
[45] See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report.*