

**GS 023**  
(Revised March 2023)

# **Guidance Statement GS 023** *Special Considerations – Public Sector* *Engagements*

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



**Australian Government**  

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**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: 15 March 2023

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<sup>1</sup> 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 15 March 2023 by the AUASB and replaces GS 023 *Special Considerations – Public Sector Engagements*, issued in June 2022.

#### 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.

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<sup>1</sup> 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.<sup>2</sup>
8. AUASB GSs are authoritative AUASB pronouncements<sup>3</sup> that are formally approved and issued by the AUASB. GSs are developed, issued and maintained in accordance with the AUASB's Due Process Framework.<sup>4</sup> Refer to the *Foreword to AUASB Pronouncements* for further information on the purpose, authority and legal status of GSs.<sup>5</sup>
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.

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<sup>2</sup> See AUASB Due Process Framework, Sections IV, IX and X.

<sup>3</sup> See *Foreword to AUASB Pronouncements*, paragraphs 10-23.

<sup>4</sup> See AUASB Due Process Framework, Section IX.

<sup>5</sup> 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.<sup>6</sup>
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<sup>7</sup>, 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.<sup>8</sup>

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

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

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

<sup>8</sup> 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.

the ASAs. Given the ASAs are sector neutral, these additional responsibilities are not dealt with in the standards. They may be dealt with in standards or guidance issued by government audit agencies.<sup>9</sup>

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.

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<sup>9</sup> 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.<sup>10</sup>
- Compliance engagements — refer to Standard on Assurance Engagement ASAE 3100.<sup>11</sup>
- Assurance Engagements on Controls — refer to Standard on Assurance Engagement ASAE 3150.<sup>12</sup>
- Performance engagements — refer to Standard on Assurance Engagement ASAE 3500.<sup>13</sup>

### **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.

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

<sup>11</sup> See ASAE 3100 *Compliance Engagements*.

<sup>12</sup> See ASAE 3150 *Assurance Engagements on Controls*.

<sup>13</sup> 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<sup>14</sup> of an acceptable financial reporting framework in the preparation of the financial report and the agreement of management to the premise<sup>15</sup> 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 entity, to avoid misunderstandings with respect to the engagement and to provide for an efficient and quality audit to be carried out.

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<sup>14</sup> Consistent with ASA 210, references to "management" should be read hereafter as "management and, where appropriate, those charged with governance".

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



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<sup>16</sup> or to obtain management's formal agreement to the terms of the engagement.<sup>17</sup> 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 matters that may be misunderstood<sup>18</sup> and to provide for an efficient and quality audit to be carried out.

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

<sup>17</sup> 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.

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

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.
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<sup>19</sup> for this purpose.

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

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<sup>20</sup> 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 management and recording the agreed terms in an engagement letter (or equivalent communication) before any assurance work is undertaken.

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<sup>20</sup> 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.

## **Auditing Standard ASA 570 *Going Concern***<sup>21</sup>

### **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.<sup>22</sup>
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.<sup>23</sup>
73. ASA 570 clarifies that management's use of the going concern basis of accounting is also relevant to public sector entities.<sup>24</sup> 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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<sup>21</sup> 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).

<sup>22</sup> For example, see Australian Accounting Standard [AASB 101 Presentation of Financial Statements](#), paragraphs 25-26.

<sup>23</sup> ASA 570, paragraph 2.

<sup>24</sup> 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<sup>25</sup> (Appendix A) and the ABS GFS Manual<sup>26</sup>.
  - (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 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:

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<sup>25</sup> Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

<sup>26</sup> The Australian Bureau of Statistics publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods*.

- 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<sup>27</sup> (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.
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

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

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.<sup>28</sup>
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<sup>29</sup> 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).<sup>30</sup>
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 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).

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<sup>28</sup> Further guidance is provided in paragraphs 115-120 of this GS.

<sup>29</sup> See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

<sup>30</sup> INTOSAI GUID 2900, paragraph 25.5.



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.<sup>31</sup>
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.
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.<sup>32</sup>

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<sup>31</sup> INTOSAI GUID 2900, paragraph 25.6.

<sup>32</sup> See paragraphs 122-127 of this GS.

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<sup>33</sup>.
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 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;

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<sup>33</sup> Referred to in the public sector as 'the borrowing program'.

- (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<sup>34</sup>, trusts and joint ventures. These entities may be granted varying degrees of autonomy but are 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)<sup>35</sup> 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

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<sup>34</sup> These terms are defined in paragraph 79 of this GS.

<sup>35</sup> See ASA 570, paragraph A3 for example indicators to consider.

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.
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.<sup>36</sup> 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.<sup>37</sup>

### **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<sup>38</sup>**

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 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.<sup>39</sup>

124. When considering requesting such confirmation, the auditor is advised to take account of any constraints imposed by legislation or the political process.<sup>40</sup> 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.<sup>41</sup>

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.

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<sup>36</sup> 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.

<sup>37</sup> Refer to Auditor Conclusions and Reporting in paragraphs 128-129 for further details.

<sup>38</sup> See ASA 570, paragraph A19. Includes a letter of financial support, comfort letter, letter of guarantee, letter of intent.

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

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

<sup>41</sup> 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.

- 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.<sup>42</sup>
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<sup>43</sup> 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;

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<sup>42</sup> See OAG NZ AG ISA (NZ) 570, paragraph A1 (amended).

<sup>43</sup> See ASA 570, paragraphs 17-24.

- (b) it is necessary to include an Emphasis of Matter paragraph<sup>44</sup> 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<sup>45</sup> 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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<sup>44</sup> See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraphs 8-9.

<sup>45</sup> See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.



## **Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information***

### **Application**

130. This section of the GS provides supplementary application and other explanatory material in relation to selected issues identified as presenting challenges in applying the ASA 220<sup>46</sup> definition of ‘Engagement Partner’ 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 220.

### **Introduction**

131. The term Engagement Partner is defined in ASA 220 and ASQM 1<sup>47</sup> as “the partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor’s report [emphasis added] that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.” In accordance with these Standards<sup>48</sup>, ‘engagement partner’, ‘partner’ and ‘firm’ is to be read as referring to their public sector equivalents where relevant.
132. In the public sector, an Auditor-General, or other suitably qualified individual appointed on behalf of the Auditor-General,<sup>49</sup> may act in a role equivalent to that of the Engagement Partner with overall responsibility for a public sector audit.<sup>50</sup>
133. Challenges may arise in relation to some aspects of ASA 220 in the public sector when the individual assigned responsibility for the audit engagement and its performance in practice, is not also the individual responsible for signing and issuing the auditor’s report. ASA 220 does not specify that the Engagement Partner has to sign the auditor’s report; nor does ASA 700<sup>51</sup> require this. Furthermore, ASA 700 does not include specific requirements as to the role and responsibilities of the individual responsible for signing and issuing the auditor’s report.

### **Scope of ASA 220 Supplementary Guidance**

134. This section of the GS provides supplementary guidance on:
- (a) the concept of Engagement Partner in the public sector (ASA 220, paragraph 12(a)); and
  - (b) the allocation of responsibilities under ASA 220 when the individual who is assigned responsibility for the audit engagement and its performance in practice, is not also the individual responsible for signing and issuing the auditor’s report.
135. Different scenarios may apply in the different jurisdictions in Australia depending on the applicable legislative mandate and chosen audit delivery model (for example, whether external Audit Service Providers form part of the engagement team or not). Each Audit Office will

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<sup>46</sup> ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* (March 2021).

<sup>47</sup> ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* (March 2021).

<sup>48</sup> ASA 220 and ASQM 1, footnote 3.

<sup>49</sup> An Auditor-General may or may not be a qualified accountant. Under section 1281 of the *Corporations Act 2001*, a person who holds office as the Auditor-General, or a person to whom the Auditor-General delegates the function or the power to conduct an audit, is taken to be registered as an auditor under the Act.

<sup>50</sup> ASQM 2 *Engagement Quality Reviews* (March 2021), paragraph A11 (amended).

<sup>51</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

work within any delegation or authorisation clauses provided within their legislation to establish policies or procedures to ensure the objectives of ASA 220 are achieved.

136. Depending on the legislative mandate in each jurisdiction, an Auditor-General may not be required to perform the audit of a public sector entity. Instead, the public sector entity may engage a private sector auditor or firm to perform the audit. In these circumstances, the engaged auditor or firm has overall responsibility for the audit engagement and its performance, and will sign and issue the auditor's report. These types of engagements fall outside the scope of this section, as ASA 220 is fit for purpose in these circumstances.

## Definitions

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

- (a) **Audit Office of the Auditor-General (Audit Office)** – Public sector equivalent of 'firm' (as defined in 137(h) below). Auditor-General and staff employed by the Auditor-General to perform audit engagements or audit procedures for or on behalf of the Auditor-General. The Audit Office may be assisted by an Audit Service Provider (as defined in 137(c) below) engaged to perform audit engagements or audit procedures for or on behalf of the Auditor-General.<sup>52</sup>
- (b) **Auditor-General** – The individual appointed as the Auditor-General (the appointed statutory auditor) or acting as such.
- (c) **Audit Service Provider**<sup>53</sup> – Private sector auditor or firm who has been contracted to perform an audit engagement or audit procedures for or on behalf of the Auditor-General.
- (d) **Engagement Leader** – In the context of this GS, the term 'Engagement Leader' is used to refer to the individual assigned responsibility for the audit engagement and its performance in practice, and who is either the Signing Officer (as defined in 137(i) below) or who makes recommendations to the Signing Officer in respect of the audit opinion. The role of Engagement Leader may be undertaken by an individual within the Audit Office or an individual engaged either directly, or indirectly through their firm, as Audit Service Provider. Individual Audit Offices may use different titles to refer to the 'Engagement Leader' role.
- (e) **Engagement Partner** – Defined in ASQM 1/ASA 220<sup>54</sup> as "the partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body." ASA 220 requires the Engagement Partner shall take overall responsibility for managing and achieving quality on the audit engagement.<sup>55</sup>

In accordance with ASQM 1/ASA 220<sup>56</sup>, 'Engagement Partner', 'partner', and 'firm' are to be read as referring to their public sector equivalents where relevant.

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<sup>52</sup> In applying ASA 220, paragraph A17, individuals from Audit Service Providers who perform audit procedures on the audit engagement will form part of the Audit Office engagement team.

<sup>53</sup> For the purpose of this GS, the ASQM 1 (paragraph 16(v)) definition of 'service provider' has been modified for application to the public sector.

<sup>54</sup> ASQM 1, paragraph 16(c) and ASA 220, paragraph 12(a).

<sup>55</sup> See ASA 220, paragraphs 13 and 40.

<sup>56</sup> ASA 220 and ASQM 1, footnote 3.

In the context of this GS, the term ‘Engagement Partner’, as defined in ASQM 1/ASA 220, could be:

- i. the Auditor-General; or
- ii. an employee of the Audit Office; or
- iii. an Audit Service Provider (contracted private sector auditor or individual assigned responsibility for the engagement by a contracted firm).

The concept of ‘Engagement Partner’ in the Public Sector, is further explained in paragraphs 138-147 of this GS.

- (f) **Engagement Quality Review (EQR)** – Defined in ASQM 1/ASQM 2/ASA 220<sup>57</sup> as “an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.”
- (g) **Engagement team** – Defined in ASQM 1/ASA 220<sup>58</sup> as “all partners and staff [or, in the context of the public sector, the Engagement Leader and/or Signing Officer and Audit Office staff] performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor’s external expert.” In applying ASA 220<sup>59</sup>, individuals from Audit Service Providers who perform audit procedures on the audit engagement will form part of the Audit Office engagement team.
- (h) **Firm** – Defined in ASQM 1/ASA 220<sup>60</sup> as “a sole practitioner, partnership or corporation or other entity of assurance practitioners, or public sector equivalent.” For the public sector equivalent of ‘firm’, see ‘Audit Office’ as defined in 137(a) above).
- (i) **Signing Officer**<sup>61</sup> – In the context of this GS, the term ‘Signing Officer’ is used to refer to the Auditor-General (the appointed statutory auditor) or individual authorised to sign and issue the auditor’s report on behalf of the Auditor-General. The Signing Officer may or may not be the Engagement Leader assigned responsibility for the audit engagement and its performance in practice.

## Guidance

### Concept of ‘Engagement Partner’ in the Public Sector (ASA 220, paragraph 12(a))

138. In Australia, Commonwealth, State or Territory Auditors-General are responsible for undertaking the majority of public sector audit engagements. Under audit legislation applicable in each jurisdiction, power is vested in the Auditor-General as the person appointed or authorised by a legislature for the purpose of exercising the functions and powers to conduct public sector audits. Under the Corporations Act<sup>62</sup>, only the person who holds office

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<sup>57</sup> ASQM 1, paragraph 16(d); ASQM 2, paragraph 13(a); and ASA 220, paragraph 12(b).

<sup>58</sup> ASQM 1, paragraph Aus 16.4 and ASA 220, paragraph Aus 12.1. This definition has been modified for application to the public sector. For further guidance on individuals included/excluded from the definition of engagement team, see ASA 220, paragraphs A15-A25. ASA 220 guidance, for example, clarifies that the engagement quality reviewer, and any other individuals performing the EQR, are not members of the engagement team.

<sup>59</sup> ASA 220, paragraph A17.

<sup>60</sup> ASQM 1, paragraph 16(i) and ASA 220, paragraph 12(e).

<sup>61</sup> Individual Audit Offices may use different titles to refer to the individual authorised to sign the auditor’s report.

<sup>62</sup> See section 1281 of the *Corporations Act 2001*. Section 1281(2) of the Act deems a person to whom the Auditor-General delegates the function of conducting an audit or the power to conduct an audit, to be taken

- as the Auditor-General, or a person to whom the Auditor-General delegates the function or the power to conduct an audit, is taken to be registered as an auditor under the Act. As statutory auditor, the Auditor-General is ultimately responsible (accountable) to the legislature.
139. For practical reasons, due to the nature and magnitude of statutory responsibilities, individual Auditors-General are unlikely to have the capacity to personally discharge all the duties and functions required to be performed in their name and for which they are held accountable.
140. Depending on the legislative mandate applicable in the jurisdiction, an Auditor-General may be able to:
- (a) delegate responsibilities to an individual where that individual may be an Audit Office employee or an Audit Service Provider; and/or
  - (b) authorise an individual (Audit Office employee or an Audit Service Provider) or firm (Audit Service Provider) to undertake audit functions under the direction of the Auditor-General.
141. In managing quality at the engagement level, ASA 220<sup>63</sup> permits the Engagement Partner to assign the design or performance of some procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team to assist the Engagement Partner. In such circumstances, ASA 220<sup>64</sup> requires that the Engagement Partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement.
142. Where the individual fulfilling the role of Engagement Leader in practice is also signing the audit opinion, practical application of ASA 220 should not be problematic and supplementary guidance provided in this section of the GS may not be relevant.
143. However, there may be circumstances where the Engagement Leader does not have delegation or authorisation to sign the audit opinion. This may be the case where the Auditor-General:
- (a) personally signs the auditor's report;
  - (b) legally delegates their authority to sign the auditor's report to another individual (delegate signs in their own right); or
  - (c) authorises another individual to sign the auditor's report for and on behalf of the Auditor-General.
144. In practice, this may result in different scenarios such as:
- (a) the Auditor-General fulfilling the role of the Engagement Leader including signing the audit opinion.
  - (b) an Audit Office employee fulfilling the role of the Engagement Leader including signing the audit opinion.
  - (c) an Audit Office employee fulfilling the role of Engagement Leader in practice with the Auditor-General signing the audit opinion.
  - (d) an Audit Office employee fulfilling the role of Engagement Leader in practice with another Audit Office employee signing the audit opinion.
  - (e) an Audit Service Provider fulfilling the role of the Engagement Leader in practice with the Auditor-General or Audit Office employee signing the audit opinion.
145. Where the Engagement Leader assigned responsibility for the audit engagement and its performance in practice is not also signing the audit opinion, the Engagement Leader performs

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to be a registered company auditor, but only for the purposes of applying Chapter 2M to the audit. For any audits performed outside of Chapter 2M, only the Auditor-General is taken to be registered as an auditor.

<sup>63</sup> See ASA 220, paragraphs 9 and 15.

<sup>64</sup> ASA 220, paragraphs 13 and 40.

the assigned Engagement Partner responsibilities for and on behalf of the Signing Officer. For the individual signing the audit opinion to be able to sign and issue the auditor's report, and take overall responsibility for the audit engagement and its performance (including taking overall responsibility for managing and achieving quality on the engagement as required in paragraph 13 of ASA 220), this individual may need to undertake additional procedures and/or obtain additional information from the Engagement Leader (and other members of the engagement team) and from the Audit Office's system of quality management.<sup>65</sup>

146. Audit Offices generally will have internal policies or procedures in place to respond to different signing arrangements and to clarify the respective leadership roles and responsibilities of the Signing Officer and Engagement Leader to ensure the objectives of ASA 220 are achieved. Audit Office policies or procedures will also typically specify how the Audit Office is expected to assign authority and responsibilities within the Audit Office.
147. Where the Signing Officer and Engagement Leader are not the same individual, the Signing Officer and Engagement Leader typically work collaboratively such that both the Engagement Leader and Signing Officer can be satisfied that the audit has been performed in accordance with the requirements of applicable Auditing Standards<sup>66</sup> and Audit Office policies or procedures.

### **Role and Responsibilities of the Engagement Leader where the Engagement Leader is not the Signing Officer**

148. Where the Engagement Leader assigned responsibility for the audit engagement and its performance in practice is not the Signing Officer for the engagement, Audit Offices may consider clarifying in their policies or procedures:
- (a) that the Engagement Leader performs any assigned ASA 220 Engagement Partner duties and responsibilities for and on behalf of the Signing Officer;
  - (b) that the Signing Officer remains ultimately responsible, and therefore accountable, for compliance with the requirements of ASA 220; and
  - (c) the required actions to be taken by the Engagement Leader to assist the Signing Officer in complying with their ASA 220 responsibilities, in particular those responsibilities that the Standard explicitly requires the Engagement Partner fulfil in their personal capacity<sup>67</sup> (see paragraph 154 of this GS).
149. For example, to assist the Signing Officer make the determination as required in paragraph 40 of ASA 220 (that is, the 'stand-back' provision – see paragraph 158 of this GS), it may be expected that the Engagement Leader will take steps to assist the Signing Officer in being sufficiently and appropriately involved throughout the audit engagement such that the Signing Officer has the required basis for determining that significant judgements made and the conclusions reached are appropriate, given the nature and circumstances of the engagement. Audit Office policies or procedures may require the Engagement Leader to consider:
- Inviting the Signing Officer to key planning and closing meetings and other relevant team events (for example, meetings to discuss significant issues pertaining to the audit or the public sector entity).

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<sup>65</sup> See ASA 220, paragraphs 9 and 15.

<sup>66</sup> Auditors-General, depending on their legislative mandate, may be required to conduct public sector engagements in accordance with AUASB Standards or may be required to set their own standards which may incorporate the AUASB Standards.

<sup>67</sup> See ASA 220, paragraphs 9 and A22.

- Involving the Signing Officer in agreeing the treatment of significant, complex, or contentious accounting issues, or matters involving significant judgements<sup>68</sup>.
  - Inviting the Signing Officer to key meetings with management and those charged with governance of the public sector entity.
  - Communicating how the Engagement Leader has satisfied themselves that the requirements of ASA 220 have been met.
150. As noted in paragraph 145 of this GS, a Signing Officer may need to obtain information from the engagement team or from the Audit Office's system of quality management to make a required decision or judgement under ASA 220. Audit Office policies or procedures may address the matters required to be communicated to the Signing Officer by the Engagement Leader, including the timing and form of such communication. Communication may be in the form of briefings, internal memorandums, written confirmations and signoffs prepared by the Engagement Leader to demonstrate that they have complied with applicable Auditing Standards and Audit Office policies or procedures; that their involvement in the engagement has been sufficient and appropriate throughout; and that the work performed by less experienced members of the engagement team has been directed, supervised and reviewed in accordance with the requirements of ASA 220 and Audit Office policies or procedures. The form and content of such communication will be influenced by the nature and extent of the audit work assigned to the Engagement Leader.
151. Audit Office policies or procedures may include a requirement for the Engagement Leader to communicate matters relevant to the Signing Officer's conclusions about the audit, for example, to provide certain internal assurances and information to assist the Signing Officer in undertaking their final review and to provide clearance for the recommended auditor's report to be signed and issued. This may be in the form of an overall summary memorandum describing the work performed and the results thereof, which may include information and assurances such as:
- Confirmation that the audit has been completed and that the audit file has been reviewed and all issues resolved.
  - Confirmation that relevant ethical requirements, including those related to independence, have been fulfilled.<sup>69</sup>
  - How matters affecting the overall audit strategy and audit plan have been addressed.
  - Significant matters arising on the audit and, in particular, consultation and conclusions on matters that were difficult or contentious.
  - How any differences of opinion have been addressed and resolved.
  - Results of the procedures performed by the engagement team on significant areas of the engagement, including where significant judgements were involved.
  - Notification that the EQR (where appropriate) has been completed.<sup>70</sup>
  - Key financial results/analytics.
  - The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
  - Evidence that the financial report has been reviewed by the Engagement Leader (attach financial report for Signing Officer to review).
  - Confirmation that the financial report complies in all material respects with accounting and financial reporting standards.

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<sup>68</sup> See ASA 220, paragraph A92 for examples of matters commonly expected to involve significant judgements.

<sup>69</sup> See ASA 220, paragraphs 21 and A47-A50.

<sup>70</sup> See ASA 220, paragraph A104.

- Evidence that the Management Representation Letter has been reviewed by the Engagement Leader.
  - Confirmation that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.
  - Recommended draft auditor's report and Auditor's Independence Declaration (where applicable) (attach for Signing Officer to review).
  - Significant matters communicated or expected to be communicated to management and those charged with governance or regulatory authorities.
  - Information about instances of non-compliance with laws or regulations.
  - Issues with sector wide implications, or other sensitive issues which may be of interest to the Parliament, Executive Government or the community.
152. In implementing Audit Office policies or procedures applicable to the audit engagement, the Engagement Leader exercises professional judgement and is influenced by the nature and circumstances of the engagement and any changes during the engagement, to determine whether to design and implement responses beyond those set forth in policies or procedures, to meet the objectives of ASA 220.

### **Role and Responsibilities of the Signing Officer where the Signing Officer is not also the Engagement Leader in practice**

153. Where the Signing Officer is not also the Engagement Leader in practice, the Signing Officer may have a reduced involvement in the audit due to the role of the Engagement Leader. In these circumstances, the Signing Officer may be able to rely on the Engagement Leader to perform certain key duties and responsibilities that may have been assigned to the role in accordance with the requirements of ASA 220 and Audit Office policies or procedures.
154. ASA 220<sup>71</sup> explicitly identifies requirements or responsibilities that need to be fulfilled by the Engagement Partner personally, and clarifies that the Engagement Partner may need to obtain information from the firm (Audit Office) or from other members of the engagement team, to fulfil the requirement (that is, to personally make the required decision or judgement).
155. To enable the Signing Officer to comply with the requirements of ASA 220, Audit Offices may consider specifying in their policies or procedures:
- (a) the requirements under ASA 220 that expressly needs to be fulfilled by the Signing Officer in their personal capacity;
  - (b) the information to be provided to the Signing Officer to enable them to make the required decisions or judgements expressly required to be fulfilled under ASA 220 in their personal capacity. This will include information compiled by the Engagement Leader and relevant information from the Audit Office's system of quality management;
  - (c) the additional procedures to be undertaken by the Signing Officer to obtain the necessary assurances that the Engagement Leader has completed their assigned duties and responsibilities in accordance with applicable Auditing Standards, Audit Office policies or procedures and applicable legal and regulatory requirements, and can be relied upon by the Signing Officer; and
  - (d) the minimum additional procedures to be undertaken by the Signing Officer, to enable the Signing Officer to take overall responsibility for:
    - i. the audit engagement and its performance (including overall responsibility for managing and achieving quality on the audit engagement); and

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<sup>71</sup> See ASA 220, paragraphs 9 and A22.

- ii. the auditor's report being appropriate in the circumstances, and to sign and issue the auditor's report.
156. In circumstances where the Signing Officer for the engagement is not also the Engagement Leader in practice, Audit Offices may consider clarifying in their policies that, in applying ASA 220<sup>72</sup>, the Signing Officer continues to be responsible overall for managing and achieving quality on the audit engagement by:
  - (a) taking responsibility for creating an environment for the engagement that demonstrates the Audit Office's commitment to quality and expected behaviour of engagement team members;
  - (b) being sufficiently and appropriately involved throughout the engagement in accordance with the requirements of ASA 220 (see paragraphs 157-159 below); and
  - (c) taking responsibility for the direction and supervision of the engagement team and the review of their work in accordance with the requirements of ASA 220 (see paragraphs 160-167 below).
157. Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the Signing Officer in different ways, including, for example:
  - being briefed by the Engagement Leader at appropriate times during the audit engagement;
  - meetings or calls with the Engagement Leader to discuss identified and assessed risks, issues, findings and conclusions; and
  - reviewing key audit documentation at appropriate points in time during the audit engagement.
158. ASA 220<sup>73</sup> requires that, prior to dating the auditor's report, the Engagement Partner perform a 'stand-back' to determine whether their involvement has been sufficient and appropriate throughout the audit engagement to provide the basis for determining that the significant judgements made, and the conclusions reached, are appropriate.
159. The Audit Office's policies or procedures may specify the nature, timing and extent of the Signing Officer's involvement and any reliance that may be placed by the Signing Officer on the Engagement Leader's involvement throughout the engagement. In addition to adhering to Audit Office policies or procedures, the Signing Officer applies professional judgement to tailor the nature, timing and extent of their involvement, taking into consideration the facts and circumstances of the engagement, and considering, for example, the factors listed in paragraphs A91-A97 of ASA 220.
160. Under ASQM 1, Audit Offices are required to establish policies or procedures that address the nature, timing and extent of the direction and supervision of engagement teams and the review of their work. Where direction, supervision and review have been assigned to an Engagement Leader in practice, Audit Offices may consider clarifying in their policies or procedures:
  - (a) the respective roles and responsibilities of the Signing Officer and Engagement Leader for direction, supervision and review; and

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<sup>72</sup> See ASA 220, paragraph 13-15, A28-A37 and A80.

<sup>73</sup> See ASA 220, paragraph 40 (with application guidance in paragraphs A113-A116). Also refer to paragraph 13 (with application guidance in paragraphs A28-A37).



- (b) the information to be provided by the Engagement Leader to the Signing Officer to enable the Signing Officer, as required under ASA 220<sup>74</sup>, to determine that the nature, timing and extent of direction, supervision and review is:
- i. planned and performed in accordance with the Audit Office’s policies or procedures, applicable Auditing Standards and applicable legal and regulatory requirements; and
  - ii. responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team.
161. The approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The Signing Officer exercises professional judgement in tailoring their approach for each engagement, taking into consideration the factors listed in paragraphs A94-A97 of ASA 220.<sup>75</sup>
162. In applying ASA 220<sup>76</sup>, the Signing Officer is required to review key audit documentation at appropriate points in time throughout the audit engagement. ASA 220 does not require the Engagement Partner to review all audit documentation but to exercise professional judgment in considering, for example, significant matters and areas of significant judgements made by the engagement team. Such matters are generally considered by the Engagement Leader in consultation with the Signing Officer as appropriate. Audit Office policies or procedures may also specify certain matters that are commonly expected to involve significant judgements. Depending on the nature and circumstances of the engagement, the Signing Officer may be able to rely on the Engagement Leader’s review of ‘standard’ significant judgements and risks identified by the engagement team, and the Signing Officer will likely focus on the critical or ‘non-standard’ matters, especially those relating to potential qualifications, difficult or contentious issues, significant risks and other areas the Engagement Leader has identified as important.
163. In applying ASA 220,<sup>77</sup> the Signing Officer is required to determine, on or before the date of the auditor’s report, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued. Information that may be relevant to the Signing Officer’s evaluation will depend on the facts and circumstances of the audit engagement, and may include written confirmations and sign-offs prepared by the Engagement Leader.
164. For example, the Signing Officer may be able to place reliance on the overall summary memorandum prepared by the Engagement Leader (see paragraph 151 above) as a basis for determining whether:
- the Engagement Leader has completed their work consistent with applicable Auditing Standards and Audit Office policies or procedures;
  - the Engagement Leader and other senior members of the engagement team have been suitably involved in the planning and performance of the audit;
  - EQR processes have been satisfactorily completed (where required);<sup>78</sup>
  - consultation and conclusions on difficult or contentious matters were appropriate and in accordance with Audit Office policies or procedures;<sup>79</sup>

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<sup>74</sup> ASA 220, paragraphs 30, A80-A84 and A94-A97.

<sup>75</sup> See ASA 220, paragraphs A80-A83.

<sup>76</sup> See ASA 220, paragraph 31 and A90-A93.

<sup>77</sup> See ASA 220, paragraphs 32 and A90-A94. Also see ASA 700, paragraph 11.

<sup>78</sup> See ASA 220, paragraphs 36(d), 41(c) and A104.

<sup>79</sup> See ASA 220, paragraph 35.

- any differences of opinion have been addressed and resolved in accordance with Audit Office policies or procedures;<sup>80</sup>
  - relevant ethical requirements, including those related to independence, have been fulfilled;<sup>81</sup>
  - reasonable assurance has been obtained whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and that the auditor’s report to be issued will be appropriate in the circumstances.<sup>82</sup>
165. Where the Signing Officer places reliance on the overall summary memorandum prepared by the Engagement Leader (see paragraph 151 of this GS), this does not negate the requirement of paragraph 40 of ASA 220 for the Signing Officer to be sufficiently and appropriately involved throughout the audit (see paragraphs 149 and 157-159 of this GS).
166. In applying ASA 220<sup>83</sup>, the Signing Officer is also required, prior to dating the auditor’s report, to review:
- the financial report; and
  - the recommended draft auditor’s report, including, if applicable, the description of the key audit matters and related audit documentation.
167. The Signing Officer may seek to review other information, and/or request the Engagement Leader to perform additional audit procedures, if the Signing Officer considers it appropriate in the circumstances, to enable them to assume overall responsibility for the audit engagement and the appropriateness of the auditor’s report.
168. ASA 220<sup>84</sup> provides guidance regarding documentation of the performance of the requirements of the Standard, including examples of different ways the Signing Officer’s involvement throughout the engagement may be evidenced.

### **Engagements performed by Audit Service Providers for or on behalf of the Auditor-General**

169. An Auditor-General may be able to engage a private sector auditor or firm under contract, to perform audit engagements or audit procedures. Contracted auditors are ‘service providers’ under ASQM 1. ASQM 1<sup>85</sup> includes requirements and related guidance to address the additional responsibilities and considerations when the Audit Office uses resources from a service provider.
170. In applying ASQM 1, Audit Offices will have policies and procedures in place to manage quality in respect of engagements performed by Audit Service Providers on behalf of the Auditor-General.
171. ASQM 1<sup>86</sup> explains that, notwithstanding that an Audit Office may use resources from a service provider in the performance of engagements, the Audit Office remains responsible for its system of quality management.

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<sup>80</sup> See ASA 220, paragraph 38(c).

<sup>81</sup> See ASA 220, paragraphs 21 and A47-A48.

<sup>82</sup> See ASA 220, paragraphs 32-33 and ASA 700, paragraphs 11-15.

<sup>83</sup> See ASA 220, paragraph 33 and ASA 700, paragraphs 11-15.

<sup>84</sup> See ASA 220, paragraphs A114 and A117-A118.

<sup>85</sup> For example, see paragraphs 29(b), paragraph 32(h), 33(d), 37(f), A65, A105-A108, A113, A148 and A172.

<sup>86</sup> See ASQM 1, paragraphs 11 and A105.

172. As responsibility for quality remains with the Audit Office (statutory auditor), Audit Offices may consider establishing policies or procedures, for example, to:
- Confirm that contracted Audit Service Providers have sufficient personnel with the appropriate competencies and capabilities, including sufficient time, to deliver assigned work in accordance with contractual arrangements.
  - Confirm that contracted Audit Service Providers meet the relevant ethical standards, including independence, on appointment and periodically thereafter.
  - Identify and resolve potential conflicts.
  - Ensure contracted-out engagements are included within the scope of the Audit Office's quality management arrangements.
  - Review all audit deliverables to be issued to those charged with governance.
173. Although responsibility for quality remains with the Audit Office (statutory auditor) for contracted-out engagements, this does not absolve the contracted Audit Service Provider of responsibility for their system of quality management within their firms in accordance with ASQM 1. In practice, the Audit Office (statutory auditor) may decide to request an Audit Service Provider to provide assurance regarding the system of quality management within their firm or, alternatively, may undertake procedures to confirm that an Audit Service Provider's system of quality management is working effectively.
174. In applying ASA 220<sup>87</sup>, individuals from Audit Service Providers who perform audit procedures on the audit engagement to assist the Audit Office will form part of the Audit Office engagement team. ASA 220<sup>88</sup> provides guidance on the application of policies and procedures when the engagement team includes individuals who are from another firm. ASA 220<sup>89</sup> notes that ASA 600<sup>90</sup>, adapted as necessary in the circumstances, may provide a useful point of reference when the engagement team includes individuals from a firm external to the Audit Office in the performance of engagements.<sup>91</sup>
175. The Auditor-General, or Audit Office employee delegated authority to sign and issue the auditor's report on behalf of the Auditor-General, will sign and issue the statutory auditor's report. Audit legislation may allow for the Signing Officer role to be delegated to an Audit Service Provider (private sector auditor or audit firm partner).
176. As explained in paragraphs 138-147 of this GS, the Signing Officer remains ultimately responsible, and therefore accountable, for the audit engagement and its performance, and for the auditor's report that is issued. This includes taking overall responsibility for managing and achieving quality on the engagement in accordance with paragraph 13 of ASA 220.
177. The contracted Audit Service Provider performs assigned work in accordance with the terms of the contractual arrangement, which will generally set out the respective duties and responsibilities of the contracted Engagement Leader and relevant Audit Office staff. The contracted Engagement Leader has a contractual responsibility to the Audit Office for ensuring that the work delivered meets the expectations as agreed with the Audit Office.
178. The contracted Engagement Leader is responsible for ensuring that work undertaken for and on behalf of the Auditor-General is performed in accordance with applicable Auditing Standards and for managing and achieving quality for the engagement at firm level in

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<sup>87</sup> See ASA 220, paragraph A17.

<sup>88</sup> See ASA 220, paragraphs A23-A25.

<sup>89</sup> See ASA 220, paragraph A1.

<sup>90</sup> ASA 600 *Special Considerations – Audits of a Group Financial Report (including the Work of Component Auditors)*.

<sup>91</sup> Equivalent to the group engagement partner or group auditor's involvement in the audit of a component.

- accordance with the contract and the Audit Service Provider's own quality management system.
179. The Signing Officer has reduced involvement in the audit due to the involvement of the contracted Engagement Leader. For the Signing Officer to be able to sign and issue the auditor's report, the Signing Officer may need to undertake additional procedures and/or obtain additional information from the contracted Engagement Leader, relevant Audit Office staff and from the Audit Office's system of quality management.
180. There may be circumstances where an outsourced audit has both an Audit Office Signing Officer and an Audit Office employee assigned responsibility for oversight of the outsourced audit engagement and its performance in practice. In these circumstances, the assigned Audit Office Engagement Leader and contracted Engagement Leader perform assigned Engagement Partner duties and responsibilities in accordance with Audit Office policies and procedures and the terms of the contractual arrangement, for and on behalf of the Signing Officer.
181. Audit Offices generally will have internal policies or procedures in place to respond to different arrangements and to clarify the respective leadership roles and responsibilities of the contracted Audit Service Provider, Audit Office Engagement Leader and the Signing Officer, to ensure the objectives of ASA 220 are achieved.
182. The Audit Office may develop policies or procedures to address the form or specific wording of the overall conclusion to be provided by the Audit Service Provider. In some cases, the Audit Service Provider may be required to provide draft deliverables, including a draft auditor's report to the Audit Office.
183. If differences of opinion arise between the Audit Service Provider and the Signing Officer or individuals performing activities within the Audit Office's system of quality management, the parties shall follow the Audit Office's policies or procedures for dealing with and resolving such differences of opinion.
184. In circumstances where the legislative audit mandate allows for the Engagement Partner role to be fully contracted-out to a private sector auditor or firm, the appointed auditor or individual assigned responsibility for the engagement by an appointed firm, fulfils the role and responsibilities of Engagement Partner in their own right and will be responsible for the audit engagement and its performance, and for the auditor's report that is issued, in accordance with the requirements of ASA 220. In these circumstances, the Audit Service Provider (individual or firm) issues the audit report in their own name and assumes responsibility for quality.