

AG ISA (NZ) 260 (REVISED)
THE AUDITOR-GENERAL'S STATEMENT ON
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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Introduction

Scope of this Statement

1. This Auditor-General's Auditing Statement:
 - (a) establishes the Auditor-General's requirements in relation to ISA (NZ) 260 (Revised): *Communication with those charged with governance* (ISA (NZ) 260);¹ and
 - (b) provides additional guidance to reflect the public sector perspective.

Application

2. Compliance with this Statement is mandatory for Appointed Auditors who carry out annual audits on behalf of the Auditor-General. This Statement requires compliance with all of the requirements of ISA (NZ) 260 and the additional requirements included in this Statement.
3. This Statement applies to audits of financial statements and/or performance information that have been prepared for reporting periods ending on or after 1 April 2020, although earlier application is encouraged.

Objectives

4. The objectives of the Appointed Auditor are to:
 - (a) communicate clearly with those charged with governance the responsibilities of the Appointed Auditor in relation to the annual audit (including the aspects of auditing public sector entities) and an overview of the planned scope and timing of the annual audit;²
 - (b) obtain from those charged with governance information relevant to the annual audit;³
 - (c) provide those charged with governance with timely observations arising from the annual audit, including areas for improving financial and other management systems; and
 - (d) promote effective two-way communication between the Appointed Auditor and those charged with governance.

¹ The ISA (NZ) Auditing Standards are scoped so that they apply to audits of "historical financial information". However, for the purposes of the Auditor-General's Auditing Standards and Statements, all references to "historical financial information" should be read as the audit of "historical financial and historical performance information".

² This objective is consistent with the applicable objectives and requirements in AG ISA (NZ) 210: *The terms of audit engagements*.

³ This objective is consistent with the applicable objectives and requirements in AG ISA (NZ) 580: *Written representations*.

Definitions

5. For the purpose of this Auditor-General's Auditing Statement, the defined terms have the meanings attributed:
 - (a) in the Glossary of Terms issued by the New Zealand Auditing and Assurance Standards Board (the NZAuASB glossary) of the External Reporting Board (although, where a term with a specific meaning in the New Zealand public sector differs from the NZAuASB glossary, the New Zealand public sector definition shall prevail); and
 - (b) in the Auditor-General's Glossary of Terms.

Requirements

Requirement to prepare a written management letter

6. The Appointed Auditor shall personally communicate the significant matters arising from the audit in writing to those charged with governance or, where authorised by those charged with governance, to the audit committee of the public entity. Where there are no significant matters to raise, the Appointed Auditor shall report that fact in writing to those charged with governance or the audit committee unless the OAG has approved otherwise (ref: para A1).
7. The Appointed Auditor shall ensure that the management letter includes the date it is signed.
8. The Appointed Auditor shall ensure that the management letter clearly outlines that their audit has been carried out in accordance with the applicable professional, ethical, and quality management standards, including the appropriate independence requirements.
9. Appointed Auditors shall ensure, where they issue a non-standard audit report, the management letter adequately explains the reasons why the non-standard audit report was issued and make relevant suggestions on how to resolve the issues that have been identified.

Requirement to inform those charged with governance of all reports issued

10. Reports to those charged with governance or the audit committee of the public entity shall refer to the other reports issued by the Appointed Auditor to other persons or bodies within the public entity and the nature of the matters included in those reports.

Precautions in respect of draft versions of the management letter

11. The Appointed Auditor shall mark as “DRAFT” each page of a draft version of the audit management letter (ref: para A2).
12. The Appointed Auditor shall ensure management and those charged with governance are aware of the importance of preserving the confidentiality of draft versions of the management letter (ref: para A2-A6).

Requests for access to versions of the management letter

13. The Appointed Auditor shall refer requests for any version of the management letter from a third party to the Assistant Auditor-General – Legal, Policy, and Inquiries at the OAG.

Application and other explanatory material

Requirement to prepare a written management letter (ref: para 6)

- A1. In many public entities, those charged with governance have a collective responsibility for governance. Those charged with governance may assign some of their responsibilities to an audit committee. In other public entities, such as government departments, there is no governing body as such, but there are other persons who fulfil the governance role (for example, the chief executive or a committee of management).

Precautions in respect of draft versions of the management letter (ref: para 9-10)

- A2. Usually a draft management letter is issued when the Appointed Auditor considers it is appropriate to obtain comments from management before release of the management letter to those charged with governance. Draft versions of the management letter are a critical part of the audit process. By their nature, they may contain information that is factually inaccurate. It is, therefore, essential that each page of a draft version of the audit management letter is marked with the word “DRAFT”.
- A3. The Appointed auditor should advise management and those charged with governance that draft management letters are provided to them on a confidential

basis to enable them to provide comment to the Appointed Auditor on whether the management letters are factually correct, and fair and balanced. The preservation of the confidentiality of draft management letters enables appropriate changes to be made in keeping with the principles of natural justice and also ensures that inaccurate or unfair information is not made public. The Appointed Auditor should also ensure that management and those charged with governance are aware that preserving the confidentiality of the draft management letters is important in the interests of ensuring open communication between the Appointed Auditor and management or those charged with governance.

- A4. Where an entity is subject to the Official Information Act 1982 or the Local Government Official Information and Meetings Act 1987, any correspondence with that entity may be required to be released under those Acts. This can include draft and final management letters sent by the auditor. If the entity receives a request for release of such documents, it is required to consider whether it is appropriate to release them, taking into account the statutory requirements, including any applicable withholding grounds. The entity may consult the auditor about their views about whether the documents should be released. If this occurs, please contact the Assistant Auditor-General – Legal, Policy, and Inquiries for assistance.
- A5. The precautions about draft versions of the management letter apply to all management letters issued to individuals in a public entity irrespective of whether the individuals represent “management” or “those charged with governance”.