# ANNUAL AUDITENGAGEMENT LETTER

## Instructions for audit teams on preparing the engagement letter using the template revised for CAS

The following engagement letter template has been prepared to comply with the requirements of Canadian Auditing Standards (CAS), including CAS 210 Agreeing the Terms of Audit Engagements. When preparing the engagement letter, the auditor should limit revisions to only those necessary to reflect specific terms of their engagement.

## Other considerations

### To whom should the engagement letter be addressed and sent?

The engagement letter should be addressed to the individual who is responsible for preparing the financial statements, and the related internal controls, and for providing the information necessary for the audit. The person representing the entity management would normally be one of the following: the CEO, president, commissioner, or deputy minister.

### Who should sign the engagement letter on behalf of the entity to confirm agreement with the terms of the engagement?

The letter must be signed by management. As per CAS 210.5, “management” should be read as “management and, where appropriate, those charged with governance.” In most cases, the engagement letter will be signed by the management, which means the Chief Executive Officer and Chief Financial Officer or their equivalent.

### How often do we send an engagement letter for annual audits?

As per CAS 210.3 (b), an audit engagement may be accepted or continued only when the basis upon which it is to be performed has been agreed through confirming that there is a common understanding between the auditor and management or, where appropriate, those charged with governance of the terms of the audit engagement. The engagement letter should be issued as part of the audit planning phase.

The decision to send a new audit engagement letter each year is a matter of professional judgment. OAG Audit 3044 provides examples of factors to consider in determining whether or not to send a new engagement letter. If the terms of the engagement are not reconfirmed in an engagement letter, the audit team should document the basis of this decision in the audit file (Audit Mandate and Client Acceptance and Continuance).

### Should we communicate the engagement letter to those charged with governance (the Audit Committee or its equivalent)?

CAS 260.14 requires that the auditor communicates with those charged with governance the responsibilities of the auditor in relation to the financial statement audit. OAG Audit 2213 states that the engagement letter is part of our communication with those charged with governance.

In order to comply with this CAS requirement and OAG guidance, audit teams must attach a copy of the engagement letter to the Report to the Audit Committee (or its equivalent)—Annual Audit Plan. An appendix for the engagement letter has been included in the Report to the Audit Committee (RAC) template to prompt this communication.

### How should you deal with the different source of audit mandates and applicable financial reporting frameworks?

Indicate in the second paragraph of the letter the source of the audit mandate, for example, the *Financial Administration Act* (FAA), an Order in Council (OIC), or the entity’s enabling legislation.

In the third paragraph, insert the wording of the opinion that will be expressed in the auditor’s report at the end of audit work as stated in the applicable legislation or OIC. For example, in the template below, our mandate to audit Crown corporations is pursuant to section 134(2) of the FAA and part of our audit work is conducted under section 132(2) of the FAA.

### What about engagement letters for group audits and component audits?

For guidance on engagement letters for group or component audits, please refer to OAG Audit 2325. This section includes examples of additional items to consider including in the terms of a group audit engagement. There is also guidance provided on engagement letters issued for component audits.

**Note:** Auditors of components of the Public Accounts of Canada should refer to audit instructions received from the Public Accounts team.

[Date]

Engagement Letter

Jul-2024

Template Owner: Audit Services

Maintained by: Design and publication

[Civil title, Name of the recipient]

[Title]

[Name of service or division]

[Department name, agency or business]

[Building name, Floor, Tower, Suite]

[Street number and name]

[City, Province]  [Postal code]

Dear [Civil title and name of the recipient]:

The purpose of this letter is to confirm our common understanding of the terms of the audit engagement.

The Auditor General of Canada has been appointed auditor of [Name of the entity] in accordance with the requirements of subsection 134(2) of the *Financial Administration Act* (FAA) [or name of applicable legislation (e.g. an act of Parliament naming the Auditor General of Canada as auditor; Order in Council No. P.C. 20XX-XXX dated \_\_\_\_\_\_\_\_\_\_\_)].

In accordance with the requirements of the FAA, [or name of applicable legislation—in italics] the audit of [Name of the entity] financial statements is designed to enable the Auditor General of Canada to issue a report indicating whether, in the auditor’s opinion:

[*In the following bullets, insert the wording of the opinion(s) that will be expressed in the auditor’s report at the end of audit work. The following example uses the auditor’s report issued under IFRS for a non‑listed Crown corporation in accordance with FAA section 132.*]

1. the [consolidated] financial statements present fairly, in all material respects, the [consolidated] financial position of the [name of the entity] [and its subsidiary (ies)] as at [year end date], and its [consolidated] financial performance and its [consolidated] cash flows [*revise statements names as appropriate*] for the year then ended in accordance with International Financial Reporting Standards (IFRSs) [or modify the paragraph to be consistent with the auditor’s opinion in the applicable financial reporting framework*:* Canadian public sector accounting standards or other basis of accounting described in the notes to the financial statements];

[*If it is a first audit conducted under a new financial reporting framework, ensure to reproduce the exact wording of our opinion to consider that the auditor’s report will exceptionally refer to each period for which financial statements are presented (current year, comparative year, and opening statement of financial position).*]

1. the accounting principles in [*name of applicable financial reporting framework:* International Financial Reporting Standards; Canadian public sector accounting standards, or other basis of accounting described in the notes to the financial statements] have been applied on a basis consistent with that of the preceding year; and
2. the transactions of [name of the entity] [and its wholly-owned subsidiary (ies)] that have come to our notice during the audit of the [consolidated] financial statements have complied, in all material respects, with Part X of the *Financial Administration Act* and regulations, the [name of the enabling legislation] and regulations [or the articles] and by‑laws of [name of the entity] [and its wholly-owned subsidiary (ies)] [*when applicable*, and any directive given to the Corporation].

We also have an obligation to call attention to any other matter falling within the scope of the audit for the report that, in our opinion, should be brought to the attention of Parliament.

The form and content of this auditor’s report will be in accordance with Canadian Auditing Standard 700 *Forming an opinion and reporting on financial statements* [*insert other standards if applicable*]. There may be circumstances where our auditor’s report will differ from the standard with respect to form and content. In such cases, we will discuss with management in advance of finalizing our auditor’s report and seek to resolve any difference of view that may exist. This will be communicated, if appropriate or necessary, to the Audit Committee [or its equivalent].

According to CAS 701 *Communicating key audit matters in the independent auditor’s report*, the communication of key audit matters is either required by law or regulation or is voluntary. If we decide to communicate key audit matters, we will discuss with management in advance of finalizing our auditor’s report. At this time, we do not intend to communicate key audit matters in our auditor’s report [*modify as appropriate*].

### Our responsibilities

**Financial statement audit.** The purpose of a financial statement audit is to express an opinion on the financial statements. We are responsible for conducting our audit in accordance with Canadian generally accepted auditing standards (GAAS). Those standards require that we comply with ethical requirements, which include independence and professional competence. The standards also require that we plan and perform the audit to obtain reasonable assurance, but not absolute assurance, about whether the financial statements are free from material misstatement, whether due to fraud or error.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also involves evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The scope of our audit will include obtaining, to the extent necessary to effectively carry out our work, an understanding of [Name of the entity] and its business environment, the business risks it faces, how the [entity] manages those risks, and its overall control environment.

**Risk assessment.** In making our risk assessment, we will obtain an understanding of internal control relevant to the preparation of the financial statements. We will do so in order to design audit procedures that are appropriate in the circumstances, and to determine the nature, timing, and extent of audit procedures that will be performed, but not to express an opinion on the effectiveness of your internal controls. However, we will inform the management and the Audit Committee [or its equivalent] in writing of any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that a material misstatement in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with Canadian generally accepted auditing standards. In planning and conducting the audit, we consider the possibility that fraud or error, if sufficiently material, may affect our opinion on the financial statements. The audit is not designed to detect fraud or error that is immaterial to the financial statements.

Because of the characteristics of fraud, an audit designed and executed in accordance with Canadian generally accepted auditing standards may not detect a material misstatement due to fraud. Characteristics of fraud include (a) concealment through collusion among management, employees, or third parties; (b) withheld, misrepresented, or falsified documentation; and (c) the ability of management to override or instruct others to override what otherwise appears to be effective controls. Further, while effective internal control over financial reporting reduces the likelihood that fraud or errors will occur and remain undetected, it does not eliminate that possibility.

For these reasons, we cannot ensure that fraud or errors, if present, will be detected. However, we will communicate to the Audit Committee [or its equivalent] and management, as appropriate, any such matters identified during our audit.

**Going concern.** We will conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity]’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the [entity] to cease to continue as a going concern.

**Communication** **of matters.** We will inform management and, if appropriate or necessary, the Audit Committee [or its equivalent] of the following matters that we may have identified during the course of our audit:

* misstatements, resulting from error (other than trivial errors), and the request to correct those misstatements;
* fraud or any information obtained that indicates that a fraud may exist;
* any significant matters involving non‑compliance or suspected non‑compliance with laws and regulations unless the communication is prohibited by law or regulation;
* events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern;
* significant deficiencies in the design or implementation of internal control to prevent and detect fraud or error; and
* related party transactions identified by us that are significant and outside the normal course of operations.

However, audits do not usually identify all matters that may be of interest to management in carrying out its responsibilities. The type and significance of the matter to be communicated will determine the level of management to whom the communication is directed.

**Working with others.** [*Note: If applicable, include a paragraph on the involvement of others, such as specialists, internal auditors or joint auditors. If not applicable, delete this section from the document.*]

[*Sample wording for working with Internal Audit (engagement teams should tailor as appropriate).*]

As part of our audit procedures, we plan to use the work of your internal audit department to assist with testing [internal controls over financial reporting / *Other—include description of the nature of support internal audit is providing*]. We are responsible for ensuring the work of Internal Audit that we intend to rely on meets our requirements. As such, there may be circumstances where we request Internal Audit to perform additional testing or update documentation so that the procedures performed meet our methodology and documentation standards. Your management and internal audit agree to make any updates we consider necessary to enable us to use their testing and to make available all relevant information requested on a timely basis.

[*The below paragraph is required for engagement teams using internal audit for direct assistance. In addition, engagement teams must obtain an acknowledgement letter from internal audit. Contact Audit Services to discuss the content of this communication.*]

You acknowledge that where internal auditors are providing direct assistance to support our audit, they will be allowed to follow our instructions and that you will not intervene in the work the internal auditors perform for us in a direct assistance capacity.

**Confidentiality.** All of our employees have a duty of confidentiality within the limits of the law. Accordingly, except for information that is in or enters the public domain, we will not provide any third party with confidential information concerning the affairs of [Name of the entity] without your prior consent—unless we are required to do so by the law.

**Other information.** Other information is defined as financial or non‑financial information (other than financial statements and the auditor’s report) included in an entity’s annual report. In conjunction with the audit, we are required to read your other information, which could comprise Management’s Discussion and Analysis (MD&A) and other information included in the annual report (collectively, other information), as applicable, and consider whether there is a material

inconsistency between the other information and the financial statements or with our knowledge obtained in the course of the audit. In addition, while reading the other information, we remain alert for indications that the other information, not related to the financial statements or our knowledge obtained in the audit, appears to be materially misstated.

In the course of our review of other information, if a material misstatement is identified, we are required to respond appropriately.

We are also required to report on the other information. The wording of the auditor’s report in this regard will differ depending on the timing of when the review of the other information is performed (prior to or after the date of the auditor’s report).

**Offering documents and designated documents.** Our audit responsibilities do not extend to offering documents and designated documents. You must obtain our written consent in advance should you wish to include or incorporate our report by way of reference in (a) a document that offers securities, whether in a primary or secondary offering, in exchange for cash, debt, other securities, or other assets (an offering document); or (b) a document other than one addressed by CPA Canada Handbook Section 7150 *Auditor’s Consent to the Use of a Report of the Auditor Included in an Offering Document* filed with securities regulatory authorities (a designated document).

### Management responsibilities

Our audit will be conducted on the premise that management and, where appropriate, the Audit Committee [or its equivalent] acknowledge and understand that they have the following responsibilities:

**Financial statements.** You are responsible for the preparation and fair presentation of the financial statements, including disclosures and information referred to above. In preparing the financial statements, you are responsible for assessing the entity’s ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting—unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative to do so. The Audit Committee [or its equivalent] is responsible for overseeing the financial reporting process.

**Internal control.** You are also responsible for establishing and maintaining an effective system of internal control over financial reporting to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In this regard, you are responsible for establishing policies and procedures that ensure financial information is prepared in accordance with [*explicitly state the applicable financial reporting framework, such as* International Financial Reporting Standards or Canadian public sector accounting standards].

**Correction of errors.** You are responsible for adjusting the financial statements to correct material misstatements and for confirming to us that the total of all uncorrected misstatements identified by us during our audit are immaterial, both individually and in total, to the financial statements taken as a whole. In addition, we expect management will correct all known non‑trivial errors.

**Prevention and detection of fraud.** You are also responsible for the design, implementation, and maintenance of programs and controls to prevent and detect fraud, and for informing us

1. of the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud;
2. about all fraud or suspected fraud of which you are aware affecting the entity involving (i) management, (ii) employees who have significant roles in internal control over financial reporting, and (iii) others where the fraud could have a material effect on the financial statements; and
3. of your knowledge of any allegations of fraud or suspected fraud affecting your financial statements received in communications from employees, former employees, analysts, regulators, investors, or others.

**Related parties.** You are responsible for disclosing to us the identity of each related party as defined in:

[*Select the relevant standard within the following:*

* CPA Canada Handbook—Accounting Part I—International Accounting Standard 24—Related Party Disclosures/
* CPA Canada Public Sector Accounting Handbook—Section PS 2200—Related Party Disclosures/
* Canadian Auditing Standards 550—Related Parties [*when the applicable financial reporting framework establishes minimal or no requirements regarding related parties*]]

and all the related party relationships and transactions of which you are aware, and for providing to us any updates that occur during the course of this engagement.

**Subsequent events.** You are responsible for informing us of subsequent events that may affect the financial statements of which you may become aware up to the date the financial statements are issued.

**Laws, regulations, and other authorities.** You are responsible for identifying and ensuring that you comply with the laws, regulations, and other authorities applicable to your organization and its activities. You will provide information to us relating to any known instances of non‑compliance or suspected non-compliance with laws, regulations, and other authorities, including financial reporting requirements.

**Providing information.** You are responsible for making available to us, on a timely basis, all information that is relevant to the preparation of the financial statements and disclosures, additional information that we may request for the purposes of our audit, and unrestricted access to your personnel, from whom we may determine that it is necessary to obtain audit evidence.

You are responsible for making available the draft financial statements, including all information relevant to their preparation, whether obtained from within or outside of the general and subsidiary ledgers (including all information relevant to the preparation of disclosures), and the other information in time to allow the auditor to complete the audit in accordance with the proposed timetable.

We ask that the annual report be available for our review, prior to its publication and if possible prior to the date of the auditor's report or [date by which the team wishes to review the annual report. *Team should adjust this paragraph accordingly*].

**Security screening of joint auditors.** [*If applicable, otherwise delete paragraph*] The Auditor General of Canada and [Name of joint auditor] have been jointly appointed as auditors on this engagement. During the course of the audit, the Office of the Auditor General of Canada and [Name of joint auditor] will access sensitive information concerning the entity, which may be discussed or shared among audit team members. It is management’s responsibility to ensure the Office of the Auditor General’s employees and [Name of joint auditor’s] employees conducting the audit have appropriate security clearance. Neither the Office of the Auditor General of Canada nor [Name of joint auditor] accepts responsibility for the security clearance of each other’s employees.

**Management representation letter.** You will provide us with written representations that encompass representations made to us during the audit covering the financial statements.

**Other information.** You are responsible for the other information, as applicable, and agree to provide us with final draft copies of those documents in a timely manner, and if possible, prior to the date of our auditor's report.

**Written consent.** [*If applicable, otherwise delete paragraphs*]You agree to seek and obtain our written consent before including our auditor’s report or referring to us in any document that is filed or distributed in connection with (a) a sale of securities, (b) facilitating investment decisions by third parties, or (c) periodic or continuous reporting obligations under any applicable securities laws.

Any agreement to provide consent will be a separate engagement. Written consent must be given by a specific written instrument signed by us and referencing the particular use that is to be made of our auditor’s report. You acknowledge that neither the terms of this engagement letter nor the issuance of our auditor’s report nor any other document constitutes such written consent. We may, in our own discretion, waive the requirement to obtain our written consent.

**Group audit.** [*If applicable, otherwise delete paragraphs*]You agree to provide us with:

* access to all information of which you are aware that is relevant to the preparation of the group financial statements such as records, documentation and other matters;
* additional information that we may request from you or component management for the purpose of the group audit; and
* unrestricted access to persons within the group from whom we determine it necessary to obtain audit evidence.

### Other engagement matters

The costs associated with this engagement will be paid for from monies appropriated to the Office of the Auditor General of Canada by Parliament.

All working papers and files, other materials, reports, and work that we create, develop, or perform during the course of the engagement will remain our property.

These terms of engagement will be effective from year to year until amended or terminated in writing.

[*Teams may also wish to include references to the following, if relevant:*

* *arrangements involving a predecessor auditor;*
* *initial audit considerations;*
* *group audit engagements—insert the following text as appropriate*

*With respect to this group [consolidated] financial statement audit, where reliance will be placed upon a component auditor’s work, it is important that the communication between us and the component auditors be unrestricted, to the extent possible.*

*When necessary, we will discuss important matters, including significant deficiencies in internal controls of the component, with the component auditors, with those charged with governance of the component, and with the component management.*

*Where appropriate, we will discuss the communication between regulatory authorities and the component related to financial reporting matters with the component auditors.*

*To the extent we consider necessary, we will perform work or request a component auditor to perform work on the financial information of the component.*

* *Component audit engagements—insert the following text as appropriate]*

*The Auditor General of Canada is also appointed as the auditor of the consolidated financial statements of [insert name of group parent], referred to as the group. [Name of entity] has been determined by the group auditors as a component at which audit work will be performed for the purpose of the group audit. As a result, in accordance with Canadian Auditing Standard 600, the group auditor will be involved in our audit and our audit results will be communicated to the group audit team. The group auditor may communicate any matter brought to their attention regarding the audit of [insert name of the component entity] that they judge to be significant to the group management and governance bodies.*]

If the terms of the audit engagement are acceptable to you, please sign the duplicate of this letter in the space provided and return it to us. Your signature also indicates that you agree to acknowledge and understand your management responsibilities, as outlined in this letter.

Yours sincerely,

[Name]
Principal[[1]](#footnote-1)
240 Sparks Street
Ottawa, Ontario  K1A 0G6

By signing below, I acknowledge and agree to my obligation to ensure that the responsibilities of [Full Client Name] and its management as set forth herein are properly discharged:

By:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| [Name]Chief Executive Officer[*Note: If no CEO, edit with name and title of equivalent.*] |  | [Date] |

By:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| [Name]Chief Financial Officer[*Note: If no CFO, edit with name and title of equivalent.*] |  | [Date] |

1. For information on the signature block requirements for Quebec and Ontario CPAs, refer to
OAG Audit 8012—Audit Report [↑](#footnote-ref-1)