
Policy 2140 – Engagement Letters and Data Sharing Agreements

BACKGROUND

Engagement letters are written, signed agreements between our Office and a state or local government to establish the objectives of an engagement, management's responsibilities, our Office's responsibilities and the limitations of the engagement. An engagement letter serves as a written agreement with management and those charged with governance as to the terms of the engagement and reduces the risk of misunderstandings. A data sharing agreement (DSA) defines the requirements and authorization for the entity or state agency to exchange confidential information with SAO, in compliance with state law and other requirements.

REQUIREMENTS

- ✓ 1. **Auditors will prepare and execute a data sharing agreement with each audit client before requesting data.**

The data sharing agreement will be prepared, reviewed and signed in accordance with the SAO administrative policy.

The agreement will cover information to be shared between the auditee and SAO during a specific period of time; therefore, a separate agreement is not needed for each audit or engagement during that period.

- ✓ 2. **Auditors will prepare an engagement letter for local and state government accountability, attestation, financial and single audits. Except as noted below, if more than one audit type will be included in the scope, a single engagement letter may be used.**

The following items must be communicated in writing:

- The objective and scope of the audit(s)
- The responsibilities of the auditor
- The responsibilities of management
- A statement that because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with GAAS
- Identification of the applicable financial reporting framework for the preparation of the financial statements
- The expected form and content of any reports to be issued by the auditor and a statement that circumstances may arise in which a report may differ from its expected form and content

Auditors should use the applicable template engagement letter in TeamMate to ensure required matters are included. Additional information may be added, as necessary, to communicate information critical to the engagement; for example: Projected beginning and

ending dates; due dates for production of financial statements and information needed for the engagement; and estimated fees. One engagement letter should be used to cover all of

the separate audits included in the engagement (e.g. accountability, financial and/or single audits).

As part of preparing the engagement letter, auditors should consider the terms of the prior year engagement and determine if changes are needed based on current circumstances.

A separate engagement letter will be prepared for attestation engagements following the guidance in Policy 8210. However, if the only attestation engagement for a housing authority is for agreed-upon procedures related to its REAC financial information submission, that information may be included with the audit engagement letter.

In the event the government refuses to agree to some or all terms of engagement, auditors should contact the audit team's assistant director and the Director for Quality Assurance in accordance with Audit Policy 1110 to consider the effects on the audit.

- ✓ 3. **Engagement letters should be signed by the audit manager (for local government audits) or the audit team's assistant director or delegate (for state agency audits), the representative of the government's management (e.g. the audit contact), and a key oversight official (e.g., the chief executive, a member of the governing body or a member of its audit committee), and received no later than the entrance conference date.**

Auditors should consider the specific circumstances of the engagement when determining the most appropriate individuals to sign the engagement letter.

- ✓ 4. **Before accepting an engagement for an initial audit, including a re-audit engagement, auditors should request that management authorize the predecessor auditor to respond fully to inquiries related to their prior engagement.**

If management refuses to make the authorization, or authorizes only a limited response, auditors should inquire as to the reasons and consider the effect on the audit or re-audit.

Auditors should also consider the effects of the predecessor auditor's response, or non-response, on the audit or re-audit in accordance with Audit Policy 1110.

- ✓ 5. **Auditors should carefully review management requests for changes to engagement terms.**

Auditors should not agree to changes that are not reasonably justified, including a request during an audit for a change in engagement type to one with a lower level of assurance.

- ✓ 6. **Changes to engagement terms during an audit should be documented in a new engagement letter or addendum.**

- ✓ 7. If auditors determine a requested change to the engagement terms is not reasonable and are not allowed by management to complete the audit, auditors should communicate those circumstances to the governing body and determine whether any obligation exists to report the circumstances to others outside the entity, such as regulators.

RELATED POLICIES

Audit Policy 1110 – Types of Engagements
Audit Policy 8210 – Planning Attestation Engagements
(Reference to the administrative policy on DSAs)

REFERENCES

Government Auditing Standards (Yellow Book) ¶8.20-.22
AU-C §210 – Terms of Engagement
AU-C §260 – The Auditor's Communication with those Charged with Governance
AT-C §205.07-09 – Examination Engagements
AT-C §210.08-10 – Review Engagements
AT-C §215.12-14 – Agreed-Upon Procedures Engagements