

What is a Management Letter/Letter of Recommendations/Close Letter from an Auditor?

Everyone knows that an auditor must provide a formal written report, addressed to the members of an organisation, on whether the accounts prepared by the governing body of the organisation are a “true and fair view” of the financial position of the organisation and comply with all legal requirements and the relevant accounting standards. This report is attached to the accounts, which are then known as the “audited accounts”, which are then distributed to the members and other interested parties.

However, this is not all that an auditor should do.

The auditing standards also require an auditor to do a **separate** oral or written report, addressed to the governing body of the organisation being audited. That report normally contains:

- (a) the auditor’s views about significant qualitative aspects of the organisation’s accounting practices, including accounting policies, accounting estimates and financial reporting disclosures. When applicable, the auditor must explain to the governing body why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the organisation;
- (b) significant difficulties, if any, encountered during the audit;
- (c) unless **all** of those on the governing body are also involved in management of the organisation:
 - (i) Significant matters arising during the audit that were discussed, or subject to correspondence, with management (eg any deficiencies in internal controls); and
 - (ii) Written representations the auditor is requesting;
- (d) circumstances that affect the form and content of the auditor’s report, if any;
- (e) any other significant matters arising during the audit that, in the auditor’s professional judgement, are relevant to the oversight of the financial reporting process.

If this report is written, it is often known as a “Management Letter” or a “Letter of Recommendations to the Board”, or a “Close Letter”. If the report is oral, it will be done by way of a meeting between the auditor and the Board, or relevant committee, such as an Audit Committee.

This is the document we seek in our Questionnaire.

If your auditor is not providing these reports, we recommend you ask him or her why not. Failure to provide such reports should be considered in your regular review of the quality of your audit - see our Standard 6.7:

“6.7 At intervals of no greater than every five years, the governing body must review the quality of the audit or review.”

For further detail of an auditor’s obligations, see Auditing Standards ASA260 and ASA265.

Please note that if your accounts are being “reviewed” rather than “audited” (eg if your revenue is less than \$1m), the reviewer’s obligations are less onerous than an auditor’s obligations.