

The Auditor's Report on Financial Statements Proposed Revisions to ISA 210

ISA 210, TERMS OF AUDIT ENGAGEMENTS

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on:
 - (a) agreeing the terms of the engagement with the client; and
 - (b) the auditor's response to a request by a client to change the terms of an engagement to one that provides a lower level of assurance.
2. **The auditor and the client should agree on the terms of the engagement.** The agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract.
3. This ISA is intended to assist the auditor in the preparation of engagement letters relating to audits of general purpose financial statements. The guidance is also applicable to special purpose audit engagements and to related services. When other services such as tax, accounting, or management advisory services are to be provided, separate letters may be appropriate.
4. In some jurisdictions, the objective and scope of an audit and the auditor's obligations are established by law. Even in those situations the auditor may still find audit engagement letters informative for their clients.

Audit Engagement Letters

5. It is in the interest of both client and auditor that the auditor sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports.

Principal Contents

6. The form and content of audit engagement letters may vary for each client, but they would generally include reference to:
 - The objective of the audit of general purpose financial statements.
 - Management's responsibility for the financial statements.
 - The applicable financial reporting framework.
 - The scope of the audit, including reference to applicable legislation, regulations, or pronouncements of professional bodies to which the auditor adheres.
 - The form of any reports or other communication of results of the engagement.
 - The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatement may remain undiscovered.

- Unrestricted access to whatever records, documentation and other information requested in connection with the audit.

[Paragraphs 7-19 unchanged]

Agreement on the applicable financial reporting framework

20. **The terms of the engagement should identify the applicable financial reporting framework.**
21. As discussed in ISA 200, “Objective and General Principles Governing an Audit of Financial Statements”, paragraphs 31-33, the legislative and regulatory obligations of a reporting entity will ordinarily determine the financial reporting framework to be used by management in preparing the entity’s financial statements. In such cases, the auditor and the entity will have a common understanding of the applicable financial framework.
22. In some jurisdictions, an entity may have an obligation to prepare the financial statements by reference to a financial reporting framework such as International Financial Reporting Standards or national accounting standards and, in addition, for certain financial statement items to be prepared or disclosed in accordance with additional regulatory requirements. In these circumstances, the applicable financial reporting framework would encompass both International Financial Reporting Standards or national accounting standards and the additional regulatory requirements.
23. When the reporting entity is registered or operating in a jurisdiction where there are no such legislative and regulatory obligations, the entity identifies an applicable framework. The entity’s choice will be governed by local practice, industry practice, user needs, or other factors. For example, the entity’s competitors may apply International Financial Reporting Standards and the entity may determine that International Financial Reporting Standards are also appropriate for its financial reporting requirements. In these cases, the auditor obtains an understanding of the matters considered by the entity in identifying an applicable financial reporting framework and considers whether the financial reporting framework is comprehensive and authoritative. The auditor uses the criteria provided in ISA 200, “Objective and General Principles Governing an Audit of Financial Statements”, paragraph 30 in making this consideration. *[Source for 21-23:Partly from Audit Risk ED- Understanding document, paragraph 30]*
24. **The auditor should not accept an engagement for an audit of general purpose financial statements when, in the absence of a statutory requirement to adopt an identified financial reporting framework, the financial reporting framework chosen by management is not comprehensive and authoritative.** The auditor does not accept an engagement to audit general purpose financial statements when the financial reporting framework chosen by management is not comprehensive and authoritative because application of such a financial reporting framework will not result in financial statements that present fairly the financial position, financial performance and cash flows of the entity. In these circumstances, the auditor encourages management to address the deficiencies in the financial reporting framework or to identify another financial reporting framework that is comprehensive and authoritative.