

Mark-up based on September 22 IAASB Draft**Proposed Amended ISA 210, “Terms of Audit Engagements”****Introduction**

[No changes are proposed to extant paragraphs 1-4. These paragraphs are also not necessary to provide context to the proposed changes. As a result, they have not been reproduced here.]

Audit Engagement Letters

[No changes are proposed to extant paragraphs 5-9. As a result, they have not been reproduced here.]

Agreement on the Applicable Financial Reporting Framework

10. The terms of the engagement should identify the applicable financial reporting framework.
11. The auditor should accept an engagement to audit financial statements only when the auditor concludes that the applicable financial reporting framework is acceptable or, subject to paragraph 22, When law or regulation prescribes the use of a the financial reporting framework that is not acceptable, the auditor should meet the requirements of paragraph 22.
12. A condition for acceptance of an assurance engagement is that the criteria referred to in the definition of an assurance engagement are suitable and available to intended users. Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment. For purposes of the ISAs, the applicable financial reporting framework provides the criteria the auditor uses to evaluate or measure the preparation and presentation of the financial statements.
13. Without an acceptable financial reporting framework management does not have an appropriate basis for preparing and presenting the financial statements and the auditor does not have suitable criteria for evaluating the entity’s financial statements. In many cases the auditor may presume that the financial reporting framework is acceptable, as described in paragraphs 17 and 18 of this ISA.

Determining the Acceptability of the Applicable Financial Reporting Framework

14. Factors that may affect the auditor’s determination of the acceptability of the applicable financial reporting framework include:
 - The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not for profit organization);
 - The purpose of the financial statements (for example, whether they are prepared and presented in accordance with a general purpose framework or a special purpose

framework to meet the common financial information needs of a wide range of users or the financial information needs of specific users[†]);

- The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and
 - Whether applicable legislative and regulatory requirements prescribe the applicable financial reporting framework.
15. Many users of financial statements are not in a position to demand financial statements tailored to meet their specific information needs. While all the information needs of specific users cannot be met, there are financial information needs that are common to a wide range of users. Financial statements prepared and presented in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users are referred to as “general purpose financial statements.”
16. In some cases, the financial statements will be prepared and presented in accordance with a financial reporting framework designed to meet the financial information needs of specific users. Such financial statements are referred to as “special purpose financial statements.” The financial information needs of the intended users will determine the applicable financial reporting framework in these circumstances. ISA 800, “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements Accounts or Items of a Financial Statement” discusses the acceptability of financial reporting frameworks designed to meet the financial information needs of specific users.

General Purpose Frameworks

Financial Reporting Standards

17. At present, there is no objective and authoritative basis that has been generally recognized globally for judging the acceptability of general purpose frameworks. In the absence of such a basis, financial reporting standards established by organizations that are authorized or recognized to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared and presented by such entities provided the organizations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders. Examples of such financial reporting standards include:
- International Financial Reporting Standards (IFRSs) promulgated by the International Accounting Standards Board;
 - International Public Sector Accounting Standards (IPSASs) promulgated by the International Public Sector Accounting Standards Board; and
 - Accounting principles promulgated by an authorized or recognized standards setting organization in a particular jurisdiction.

[†] See paragraph 36a of ISA 200, “Objective and General Principles Governing an Audit of Financial Statements.”

These financial reporting standards are often identified as the applicable financial reporting framework in legislative and regulatory requirements governing the preparation and presentation of general purpose financial statements.

Financial Reporting Frameworks Prescribed by Law or Regulation

18. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used by management in preparing and presenting general purpose financial statements for certain types of entity. In the absence of indications to the contrary, such a financial reporting framework is presumed to be acceptable for general purpose financial statements prepared and presented by such entities.

Financial Reporting Standards Supplemented by Law or Regulation

19. In some jurisdictions, legislative or regulatory requirements may supplement the financial reporting standards established by an authorized or recognized standards setting organization with additional requirements relating to preparing and presenting financial statements. This may, for example, be the case when legislative or regulatory requirements prescribe disclosures in addition to those required by the financial reporting standards or when they narrow the range of acceptable choices that can be made within the financial reporting standards.
20. Where financial reporting standards established by an authorized or recognized standards setting organization are supplemented by legislative or regulatory requirements, the auditor determines whether there are any conflicts between the financial reporting standards and the additional requirements. Where such conflicts exist, the auditor discusses the nature of the additional requirements with management and whether (a) the additional requirements can be met through additional disclosures in the financial statements, or (b) the description of the applicable financial reporting framework in the financial statements can be amended accordingly. If this is not possible, the auditor considers whether it is necessary to modify the opinion in the auditor's report in accordance with ISA 705.

Jurisdictions that Do Not Have Authorized or Recognized Standards Setting Organizations or Financial Reporting Frameworks Prescribed by Law or Regulation

21. When an entity is registered or operating in a jurisdiction that does not have an authorized or recognized standards setting organization, or where use of the financial reporting framework is not prescribed by law or regulation, management identifies an applicable financial reporting framework. Appendix 2 contains guidance on determining the acceptability of financial reporting frameworks in such circumstances.

Deficiencies in the Applicable Financial Reporting Framework

22. **When law or regulation prescribes the use of a financial reporting framework that the auditor concludes is unacceptable, the auditor should ~~accept~~ undertake the engagement only if management agrees to provide disclosures in the financial statements beyond the specific requirements of the framework to avoid misleading users of the financial statements. In addition, the auditor should include in the terms of engagement the fact that an Emphasis of Matter paragraph, drawing users' attention to the additional disclosures, will be included in the auditor's report in**

accordance with ISA 706, “**Emphasis of Matter Paragraphs or Other Matter(s) Paragraphs in the Independent Auditor’s Report.**” Unless the auditor is required by law or regulation to ~~do so, the auditor does not~~ express the opinion on the financial statements using the phrases “give a true and fair view” or “present fairly, in all material respects,” in accordance with the applicable financial reporting framework, the terms of engagement also state that the opinion on the financial statements will not include such phrases.

23. **If management refuses to provide additional disclosures, and law or regulation prohibits the auditor from refusing the engagement, the auditor should consider the effect of the misleading nature of the financial statements on the auditor’s report, and include in the terms of engagement an appropriate reference to the matter.**
24. Deficiencies in the applicable financial reporting framework that indicate that the framework is not acceptable may be encountered after the engagement has been accepted. When use of that framework is prescribed by law or regulation, the auditor meets the requirements of paragraphs ~~23~~ 22 and ~~24~~ 23. When use of that framework is not prescribed by law or regulation, management may decide to adopt another framework that is acceptable. When management does so, the auditor agrees the change in framework in new terms of engagement.

Wording Used to Express the Opinion

25. When law or regulation prescribes wording for the opinion in the auditor’s report that differs significantly from the wording described in the ISAs, the auditor considers whether there may be a risk that users might misunderstand the assurance obtained in the audit of the financial statements. In such circumstances, the auditor considers whether the risk of misunderstanding can be mitigated through appropriate explanation in the auditor’s report (see ISA 706). **If the auditor concludes that the risk of misunderstanding cannot be mitigated through appropriate explanation in the auditor’s report, the auditor should not accept the engagement.**
26. Law or regulation, however, may prohibit the auditor from refusing the engagement. An audit conducted in accordance with such law or regulation does not comply with the ISAs.

Recurring Audits

[No changes are proposed to extant paragraphs 16-17. As a result, they have not been reproduced here.]

Acceptance of a Change in Engagement

[No changes are proposed to extant paragraphs 18-25. As a result, they have not been reproduced here.]

Effective Date

27. This ISA is effective for audits of financial statements for periods beginning on or after [date].

Public Sector Perspective

[No changes are proposed to the PSP. As a result, it has not been reproduced here.]

Appendix 1: Example of an Engagement Letter

[No changes are proposed to the Appendix. As a result, it has not been reproduced here.]

Appendix 2

Determining the Acceptability of General Purpose Frameworks

Jurisdictions that Do Not Have Authorized or Recognized Standards Setting Organizations or Financial Reporting Frameworks Prescribed by Law or Regulation

1. As explained in paragraph 21 of this ISA, when an entity is registered or operating in a jurisdiction that does not have an authorized or recognized standards setting organization, or where use of the financial reporting framework is not prescribed by law or regulation, management identifies an applicable financial reporting framework. Practice in such jurisdictions is often to use the financial reporting standards established by one of the organizations described in paragraph 17 of this ISA. Alternatively, there may be established accounting conventions in a particular jurisdiction that are generally recognized as the financial reporting framework for general purpose financial statements prepared by certain specified entities operating in that jurisdiction. When such a financial reporting framework is adopted by management, the auditor determines whether the accounting conventions collectively can be considered to constitute an acceptable financial reporting framework for general purpose financial statements. When the accounting conventions are widely used in a particular jurisdiction, the accounting profession in that jurisdiction may have considered the acceptability of the financial reporting framework on behalf of the auditors. Alternatively, the auditor makes this determination by considering whether the accounting conventions exhibit attributes normally exhibited by acceptable financial reporting frameworks (see paragraph 2), or by comparing the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable (see paragraph 3).
2. Acceptable financial reporting frameworks normally exhibit the following attributes that result in information provided in financial statements that is useful to the intended users:
 - (a) Relevance, in that the information provided in the financial statements is relevant to the nature of the entity and the objective of the financial statements. (For example, in the case of a business enterprise that prepares general purpose financial statements, relevance is assessed in terms of the information necessary to meet the common financial information needs of a wide range of users in making economic decisions. These needs are ordinarily met by presenting the financial position, financial performance and cash flows of the business enterprise.)
 - (b) Completeness, in that transactions and events, account balances and disclosures that could affect conclusions based on the financial statements are not omitted.
 - (c) Reliability, in that the information provided in the financial statements:
 - Where applicable, reflects the economic substance of events and transactions and not merely their legal form; and
 - Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances.

- (d) Neutrality, in that it contributes to information in the financial statements that is free from bias.
 - (e) Understandability, in that the information in the financial statements is clear and comprehensive and not subject to significantly different interpretation.
3. The auditor may decide to compare the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable. For example, the auditor may compare the accounting conventions to IFRSs. For an audit of a small entity, the auditor may decide to compare the accounting conventions to a financial reporting framework specifically developed for such entities by an authorized or recognized standards setting organization. When the auditor makes such a comparison and differences are identified, the decision as to whether the accounting conventions adopted by management in preparing and presenting the financial statements constitute an acceptable financial reporting framework includes considering the reasons for the differences and whether application of the accounting conventions, or the description of the financial reporting framework in the financial statements, could result in financial statements that are misleading.
4. A conglomeration of accounting conventions devised to suit individual preferences is not an acceptable financial reporting framework for general purpose financial statements. Similarly, a compliance framework will not be an acceptable financial reporting framework, unless it is generally accepted in the particular jurisdictions by preparers and users.

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