

Agenda Item 9-C

Exhibit 1

Proposed Disposition of the Present Tense and Other Statements in ISA 210 (Redrafted)

I. Those That Have Been Elevated to a Requirement or Essential Guidance

Paragraph in Close off ISA 210	Extracts from Close off ISA 210 and Redrafted ISA 210 Note: For ease of reference, Close off text containing present tense and proposed amended text in Redrafted ISA 210 have been shaded.	Paragraph in Redrafted ISA 210	Rationale or Comments
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		Second sentence of the paragraph has been elevated, as use of the present tense (PT) statement “would need to be,” is indicative of an imperative obligation.
	<i>Proposed Revision as a Requirement</i> The auditor shall agree with and the entity client should agree on the terms of the audit engagement. Unless sufficiently specified by law or regulation, the The agreed terms of the audit engagement shall would need to be recorded in an audit engagement letter or other suitable form of contract.	5	The suggested amendment acknowledges that in some jurisdictions or countries, moreover, with respect to some audits in the public sector, the terms of the audit engagement may be specified in law or regulation.
9	The form and content of audit engagement letters may vary for each client, but they would generally include reference to: <ul style="list-style-type: none">The objective of the audit of financial statements.Management’s responsibility for the financial statements as described in ISA 200.The financial reporting framework adopted by management in preparing the financial statements, i.e., the applicable financial reporting framework.The scope of the audit, including reference to applicable legislation, regulations, or pronouncements of professional bodies to which		Certain terms of the audit engagement ought to be required (recorded) in the audit engagement letter or acknowledged by management, and where appropriate, those charged with governance.

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	<p>the auditor adheres.</p> <ul style="list-style-type: none"> The form of any reports or other communication of results of the engagement. 		
	<ul style="list-style-type: none"> The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that even some material misstatement may remain undiscovered; and 	A5	Sixth dot point retained as application material (A5)
	<ul style="list-style-type: none"> Unrestricted access to whatever records, documentation and other information requested in connection with the audit. 		
	<ul style="list-style-type: none"> Management's responsibility for establishing and maintaining effective internal control. 		Eighth dot point elevated to the extent controls relevant to preparation and presentation of financial statements (paragraph 7).
13	<p>The terms of the engagement should identify the applicable financial reporting framework.</p>		As a consequence of elevating reference to the reporting framework (see new para 6), it is unnecessary to require this (reference) separately – i.e. extant para 13 now incorporated into new para 6
	<p><i>Proposed Revision as a Requirement</i></p> <p>The form and content of audit engagement letters shall may vary for each client, but they would generally include reference to:</p> <ul style="list-style-type: none"> The objective of the audit of financial statements. <u>The auditor's responsibilities;</u> Management's responsibility for the financial statements as described in ISA 200(see paragraph 7). <u>Identification of the applicable The financial reporting framework for the preparation and presentation of the entity's financial statements; and adopted by management in preparing the financial statements, i.e., the applicable</u> 	6	

Paragraph in Close off ISA 210	Extracts from Close off ISA 210 and Redrafted ISA 210 Note: For ease of reference, Close off text containing present tense and proposed amended text in Redrafted ISA 210 have been shaded.	Paragraph in Redrafted ISA 210	Rationale or Comments
	<p><u>financial reporting framework.</u></p> <ul style="list-style-type: none"> 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 <u>to be issued by the auditor or other communication of results of the engagement.</u> The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that even some material misstatement may remain undiscovered; and Unrestricted access to whatever records, documentation and other information requested in connection with the audit. Management's responsibility for establishing and maintaining effective internal control. <p>***</p>		
	<p><u>The auditor shall obtain through the audit engagement letter, or otherwise, written acknowledgement and agreement of the responsibilities of management, and where appropriate, those charged with governance, for:</u></p> <p>(a) <u>Preparing and presenting the financial statements, including selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances;</u></p> <p>(b) <u>Designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and</u></p> <p>(c) <u>Providing complete information to the auditor including granting unrestricted access to</u></p>	7	

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	<u>records, documentation and other information that is requested by the auditor in connection with the audit of the entity.</u>		
23	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, "Modifications to the Opinion in the Independent Auditors's Report."		The entire paragraph has been elevated in view of the subject matter and nature of the items described in the present tense within this paragraph.
	<i>Proposed Revision as a Requirement</i> Where financial reporting standards established by an authorized or recognized standards setting organization are supplemented by <u>law</u> legislative or regulation <u>regulatory requirements</u> , the auditor shall determines whether there are any conflicts between the financial reporting standards and the additional requirements. Where such conflicts exist, the auditor shall discusses <u>with management</u> the nature of the additional requirements with management and whether: <u>(a)</u> the additional requirements can be met through additional disclosures in the financial statements, or <u>(b)</u> the description of the applicable financial reporting framework in the financial	11	

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	<p>statements can be amended accordingly.</p> <p>If neither of the above actions is this is not possible, the auditor shall considers<u>determine</u> whether it is necessary to modify the <u>audit</u> opinion in the auditor's report in accordance with <u>[proposed] ISA 705 (Revised and Redrafted)</u>, "Modifications to the Opinion in the Independent Auditor's Report."</p>		
28	<p>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.</p> <p><i>Proposed Revision as a Requirement</i></p> <p><u>In some cases, When</u> law or regulation prescribes <u>the</u> wording <u>of for</u> the <u>audit</u> opinion in <u>terms that are the</u> auditor's report that differs significantly <u>different</u> from the <u>requirements prescribed wording described</u> in the ISAs. <u>In these circumstances,</u> the auditor shall considers<u>evaluate whether:</u></p> <p>(a) there may be a risk that whether users might misunderstand the assurance obtained <u>from</u> in the audit of the <u>entity's</u> financial statements; <u>and, if so</u></p> <p>(b) <u>whether</u> additional explanation in In such circumstances, the auditor's report (see <u>[proposed] ISA 706 (Revised and Redrafted)</u>) considers whether the risk of <u>misunderstanding</u> can be mitigated <u>possible</u> <u>misunderstanding through</u> <u>appropriate</u></p>	12	<p>The entire paragraph has been elevated to a requirement because:</p> <ol style="list-style-type: none"> 1. in effect, extant para 28 prescribes two separate requirements; 2. the existing (black-letter) requirements cannot stand alone, without inclusion of any introductory sentence; and 3. clarity around the requirements would be improved by appropriate elevations.

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	<p>explanation in the auditor's report (see ISA 706).</p> <p>If the auditor concludes that <u>additional explanation in the auditor's report cannot mitigate possible the risk of misunderstanding, cannot be mitigated through appropriate explanation in the auditor's report,</u> the auditor shall could not accept the engagement, <u>unless prohibited by law or regulation. An audit which the auditor is thereby required to accept does not comply with the ISAs.</u></p>		

II. Present Tense statements that have been re-drafted within the Application and Other Explanatory Material

Paragraph in Close Off ISA 210	Extracts from Close Off ISA 210 and Redrafted ISA 210 <i>Note: For ease of reference, Close Off text containing present tense and proposed amended text in Redrafted ISA 210 have been shaded.</i>	Paragraph in Redrafted ISA 210	Rationale or Comments
10	<p>The auditor may also wish to include in the letter:</p> <ul style="list-style-type: none"> • Arrangements regarding the planning and performance of the audit. • Expectation of receiving from management written confirmation concerning representations made in connection with the audit. • Request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter. • Description of any other letters or reports the auditor expects to issue to the client. • Basis on which fees are computed and any billing arrangements 		Retain as application material. However, wording has been revised to line up with new requirements at paragraph 6; and to replace the auditor <i>action</i> (wish) with a <i>description</i> (of an engagement letter contents).
	<p><i>Proposed Revision</i></p> <p>The <u>form and content of the audit engagement letter may vary from each entity. Information included in the engagement letter on the auditor's responsibilities and management's responsibilities may be based on [proposed] ISA 200 (Revised and Redrafted), "Overall Objective of the Independent Auditor, and Concepts Relevant to an Audit of Financial Statements."</u> In addition to including the matters required by paragraph 6, an engagement letter may make reference to, for example auditor may also wish to include in the letter:</p> <ul style="list-style-type: none"> • <u>Elaboration of the scope of the audit, including reference to applicable legislation, regulations, ISAs and ethical and other pronouncements of professional bodies to which the auditor adheres</u> • <u>The form of any other communication of</u> 	A5	

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	<p><u>results of the audit engagement</u></p> <ul style="list-style-type: none"> • <u>The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that even some material misstatement may remain undiscovered</u> • Arrangements regarding the planning and performance of the audit. • <u>The e</u>Expectation of receiving from management written confirmation concerning representations made in connection with the audit <u>(see also A8).</u> • <u>Basis on which fees are computed and any billing arrangements</u> • <u>A r</u>Request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter. • Description of any other letters or reports the auditor expects to issue to the client. • Basis on which fees are computed and any billing arrangements 		
12	<p>When the auditor of a parent entity is also the auditor of its subsidiary, branch or division (component), the factors that influence the decision whether to send a separate engagement letter to the component include the following:</p> <ul style="list-style-type: none"> • Who appoints the auditor of the component. • Whether a separate auditor's report is to be issued on the component. • Legal requirements. • The extent of any work performed by other auditors. • Degree of ownership by parent. • Degree of independence of the component's 		<p>Retain as application material.</p> <p>Inserted the word 'may.'</p>

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	management.		
	<p>Proposed Revision</p> <p>When the auditor of a parent entity is also the auditor of its subsidiary, branch or division (component), the factors that may influence the decision whether to send a separate engagement letter to the component include the following:</p> <ul style="list-style-type: none"> • Who appoints the auditor of the component. • Whether a separate auditor's report is to be issued on the component. • Legal requirements. • The extent of any work performed by other auditors. • Degree of ownership by parent. <p>Degree of independence of the component's management.</p>	A4	
27	<p>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 25 and 26. 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.</p> <p>Proposed Revision</p> <p>Deficiencies in the applicable financial reporting framework that indicate that the framework is not acceptable may be encountered after the audit engagement has been accepted. When use of that framework is prescribed by law or regulation, the auditor meets the requirements of paragraphs 25</p>	A19	<p>Retained as application material.</p> <p>The present tense has been re-drafted in line with the clarity drafting conventions. The revised wording envisages the possibility that, in certain circumstances, new terms may not need to be agreed as the previous terms may be adequate</p>

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	<u>97</u> and <u>108</u> 26 . 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 <u>new terms of the auditor engagements may need to be agreed</u> agrees <u>to reflect</u> the change in <u>the framework as the previously agreed terms may no longer be accurate</u> .		
33	A request from the client for the auditor to change the engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit or related service originally requested or a restriction on the scope of the engagement, whether imposed by management or caused by circumstances. The auditor would consider carefully the reason given for the request, particularly the implications of a restriction on the scope of the engagement.		Retained as application material. The present tense has been re-drafted in line with the clarity drafting conventions.
	Proposed Revision A request from the <u>entity</u> client for the auditor to change the <u>audit</u> engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit or related service originally requested or a restriction on the scope of the <u>audit</u> engagement, whether imposed by management or caused by circumstances. The auditor, <u>as required by paragraph 143</u> , would <u>considers</u> carefully the reason given for the request, particularly the implications of a restriction on the scope of the <u>audit</u> engagement.	A21	
34	A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of service originally requested would ordinarily be considered a reasonable basis for requesting a change in the engagement. In contrast a change would not be considered reasonable if it appeared that the change relates to information		Retained as application material. The present tense has been re-drafted in line with the clarity drafting conventions.

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	that is incorrect, incomplete or otherwise unsatisfactory.		
	<p>Proposed Revision</p> <p>A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of service originally requested may would ordinarily be considered a reasonable basis for requesting a change in the audit engagement. In contrast, a change may would not be considered reasonable if it appeared that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory.</p>	A22	
35	Before agreeing to change an audit engagement to a related service, an auditor who was engaged to perform an audit in accordance with the ISAs would consider , in addition to the above matters, any legal or contractual implications of the change.		Retained as application material. The present tense has been re-drafted in line with the clarity drafting conventions.
	<p>Proposed Revision</p> <p>Before agreeing to change an audit engagement to a related service, an auditor who was engaged to perform an audit in accordance with the ISAs may need to assess would consider, in addition to the above matters, any legal or contractual implications of the change.</p>	A24	
36	<p>If the auditor concludes that there is reasonable justification to change the engagement and if the audit work performed complies with the ISAs applicable to the changed engagement, the report issued would be that appropriate for the revised terms of engagement. In order to avoid confusing the reader, the report would not include reference to:</p> <p>(a) The original engagement; or</p> <p>(b) Any procedures that may have been performed in the original engagement,</p>		<p>Retained as application material.</p> <p>The present tense has been re-drafted to replace the implied requirement with a statement describing the work and report that consequentially results from changes in the engagement.</p> <p>The word "ordinarily" is included to acknowledge there</p>

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	except where the engagement is changed to an engagement to undertake agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.		may be circumstances when the stated items may be appropriately included in the audit report.
	<p>Proposed Revision</p> <p>If the auditor concludes that there is reasonable justification to change the <u>audit</u> engagement <u>to a related service, and if the audit work performed to the date of change may be relevant to the changed engagement; however, the work required to be performed complies with the ISAs applicable to the changed audit engagement, and the report to be issued, would be those that appropriate for to the revised terms of audit engagement.</u> In order to avoid confusing the reader, the <u>audit</u> report would <u>ordinarily not</u> include reference to:</p> <p>(a) The original <u>audit</u> engagement; or</p> <p>(b) Any procedures that may have been performed in the original <u>audit</u> engagement, except where the engagement is changed to an engagement to undertake agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.</p>	A25	