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Agenda Item
4

Committee: IAASB

Meeting Location: Warsaw, Poland

Meeting Date: July 9-13, 2007

Agreeing the Terms of Audit Engagements

Objective of Agenda Item

1. To approve as an exposure draft proposed ISA 210 (Redrafted), "Agreeing the Terms of Audit Engagements."

Task Force Members

2. The Task Force members are:

Ian McPhee (Chair)	IAASB Member
John Kellas	IAASB Chairman
Richard Mifsud	IAASB Technical Advisor

The redrafting support was provided by Howard Pratt and Chiara Carotenuto of the Australian Auditing and Assurance Standards Board (AUASB) Technical Group.

Background

3. The initial draft of Redrafted ISA 210 was considered at the April 2007 IAASB meeting. At that meeting, the IAASB asked that the Task Force explore whether greater clarity could be introduced into the Redrafted ISA 210 by re-arranging paragraphs into a more logical sequence that better reflects the order of events described in the "Objective" paragraph of the ISA.

4. The IAASB asked the Task Force to clarify the auditor's obligation(s) to establish whether the necessary preconditions for an audit are present. Preconditions were identified as follows: (a) the acceptability of the financial reporting framework to be used in the preparation and the presentation of the financial statements; and (b) acknowledgement and agreement of the responsibilities of management and, where appropriate, those charged with governance, for preparing and presenting the financial statements, designing, implementing and maintaining internal control and providing complete information to the auditor.

5. It was agreed that the material in the Application and Other Explanatory Material section should be aligned with the revised positioning of the Requirements paragraphs.

6. It was also agreed to change the title of the ISA to better reflect the content. The title "Agreeing the Terms of Audit Engagements" was suggested so as to emphasize that the focus of the ISA is actually the *processes* undertaken by the auditor in agreeing the terms of the audit engagement.

7. In addition, there was agreement to retain the example engagement letter in Appendix 1 to the ISA, and to amend the structure and the layout of the letter to reflect the re-arrangement of the content of the ISA. The use of bracketed headings to better identify the components of the letter was suggested.

8. The Task Force re-organized the proposed ISA in line with the comments and suggestions received from the IAASB at the April 2007 meeting. There was broad agreement, at the April meeting, that the re-organized version addressed the structural issues raised by the IAASB.

9. The Task Force received commentary from the IFAC SMP Committee and has addressed the main points raised.

Matters for IAASB Consideration

10. In the main, the changes to the proposed ISA consist of:

    Preconditions for an Audit. New paragraph 4 was compiled from the requirements in the previous version (paragraphs 7 and 8). As a direct result of the requirements in paragraph 4, on the preconditions for an audit engagement, the Task Force considered it necessary to include new requirements to deal with the situation where the preconditions are *not* present (see paragraph 8).

    Restructure. Requirements relating to circumstances where there are issues with the reporting framework (previous version, paragraphs 9, 10 and 11) have been re-located to paragraphs 16, 17 and 18. As a direct consequence of the re-structure of the ISA, it was necessary for the Task Force to introduce new Requirements, paragraphs 5 and 6. These paragraphs do not introduce new obligations but simply direct the auditor to the appropriate requirements when necessary.

Suggested Basis for Reviewing the Material Presented

11. The Task Force recommends that the IAASB consider the changes presented in the latest proposed Redrafted ISA 210 (Agenda Item 4-B) against the version of Redrafted ISA 210 presented at the April 2007 IAASB meeting.

Material Presented (Note: Agenda Item 4-B will be used for purposes of the discussion at the meeting.)

Agenda Item 4-A (Pages 1623-1680)	Proposed ISA 210 (Redrafted) (Clean)
Agenda Item 4-B (Pages 1681-1700)	Proposed ISA 210 (Redrafted) (Mark-up) (reflecting changes since the version presented to the IAASB in April 2007)

Action Requested

The IAASB is asked to approve for exposure proposed ISA 210 (Redrafted).

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