

Changes agreed with the IAASB on September 26, 2007 are shown in mark-up and are highlighted. Proposed conforming amendments as a result of proposed ISA 580 (Revised and Redrafted) (and minor editorial changes) are shown in mark-up only.

PROPOSED INTERNATIONAL STANDARD ON AUDITING 210

(REDRAFTED)

AGREEING THE TERMS OF AUDIT ENGAGEMENTS

(Effective for audits of financial statements for periods beginning on or after ~~{date}~~ [December 15, 2009])*

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Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities in:
 - (a) ~~A~~greeing the terms of the audit engagement with the entity; and
 - (b) ~~R~~esponding to a request by an entity to change the terms of an audit engagementfor an audit of financial statements. It is to be adapted as necessary in the circumstances when applied to audits of other historical financial information.

Effective Date

2. This ISA is effective for audits of financial statements for periods beginning on or after ~~{date}~~ [December 15, 2009].⁺

Objective

3. The objective of the auditor is to accept an audit engagement only when the basis upon which it is to be performed has been agreed, through:
 - (a) Establishing whether necessary preconditions for an audit are present; and
 - (b) Confirming that there is a common understanding between the auditor and the entity of the terms of the audit engagement and of the respective responsibilities of the auditor, management and those charged with governance. (Ref: Para. A1-A2)

Requirements

Preconditions for an Audit

4. In order to establish whether necessary preconditions for an audit are present, the auditor shall:
 - (a) Determine whether the financial reporting framework to be ~~used~~ applied in the preparation and presentation of the financial statements is acceptable; and (Ref: Para. A3-A10)
 - (b) Obtain the ~~acknowledgement and~~ agreement of management and, where appropriate, those charged with governance; that they acknowledge and understand their ~~responsibilities for responsibility~~; (Ref: Para. A11, A13-A14, A18-A19)

⁺ ~~This date will not be earlier than December 15, 2008.~~

- (i) ~~Preparing and presenting~~For the preparation and presentation² of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and (Ref: Para. A15-A17)
- ~~(ii) Designing, implementing and maintaining internal control relevant to preparing and presenting financial statements that are free from material misstatement, whether due to fraud or error; and~~
- ~~(iii) Providing complete information to the auditor in connection with the audit of the entity. (Ref: Para. A11-A14)~~
- (ii) To provide the auditor with:
 - a. All information that is relevant to the preparation and presentation of the financial statements, such as records, documentation, and other matters that support the financial statements;
 - b. Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and
 - c. Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

Except as provided in paragraph 5, the agreement shall describe the responsibilities of management and, where appropriate, those charged with governance as they are described in paragraph 4(b)(i)-(ii).

5. If law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance, the auditor may determine that the law or regulation includes responsibilities that are equivalent in effect to those set out in paragraph 4(b). For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them. For those that are not prescribed by law or regulation such that their effect is equivalent, the auditor shall use the description in paragraph 4(b). (Ref: Para. A12)

² In the case of a fair presentation framework, management and, where appropriate, those charged with governance, are responsible for the preparation and *fair* presentation of the financial statements in accordance with the financial reporting framework; or the preparation of financial statements *that give a true and fair view* in accordance with the financial reporting framework. This applies to all references to “preparation and presentation of the financial statements” in the ISAs.

Limitation on Scope Prior to Audit Engagement Acceptance

- 6.5. If ~~the entity management or those charged with governance imposes~~ a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the entity's financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

Reasons for not Proceeding with the Audit Engagement

- 7.6. Where the preconditions for an audit are not present, the auditor shall discuss the matter(s) with ~~the entity management and, where appropriate, those charged with governance~~. Unless the requirements of paragraph 1746 are met, or the auditor is required by law or regulation to do so, the auditor shall not accept the proposed audit engagement if the auditor has determined that the applicable financial reporting framework is unacceptable or if the ~~acknowledgement and~~ agreement referred to in paragraph 4(b) has not been obtained.

Agreement on Audit Engagement Terms

- 8.7. The auditor shall agree the terms of the audit engagement with ~~the entity management or those charged with governance~~. Unless sufficiently specified by law or regulation, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement. (Ref: Para. ~~A15 A17 A20-A22~~)
- 9.8. The audit engagement letter or other written agreement shall include:
- (a) The objective and scope of the audit of the entity's financial statements;
 - (b) The responsibilities of the auditor;
 - (c) The responsibilities of management and, where appropriate, those charged with governance (see paragraph 4(b));
 - (d) Identification of the applicable financial reporting framework for the preparation and presentation of the entity's financial statements; and
 - (e) The expected form of any reports to be issued by the auditor. (Ref: Para. ~~A18 A19 A23-A24~~)

Recurring Audits

- 10.9. On recurring audits, the auditor shall consider whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement. (Ref: Para. ~~A20 A25~~)

Acceptance of a Change in the Terms of the Audit Engagement

- ~~11.40.~~ The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so. (Ref: Para. ~~A21-A23~~ A26-A28)
- ~~12.41.~~ If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that provides a lower level of assurance, the auditor shall determine whether it is appropriate to do so. (Ref: Para. ~~A24-A25~~ A29-A30)
- ~~13.42.~~ Where the terms of the audit engagement are changed, the auditor and ~~the entity~~ management or those charged with governance shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.
- ~~14.43.~~ If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted to continue the original audit engagement, the auditor shall, unless prohibited by law or regulation:
- (a) Withdraw from the audit engagement; and
 - (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances necessitating the auditor's withdrawal from the audit engagement to other parties, such as those charged with governance or shareholders.

Additional Considerations in Engagement Acceptance

Wording Used to Express the Opinion

- ~~15.44.~~ In some cases, law or regulation prescribes the wording of the audit opinion in terms that are significantly different from the requirements of ~~the~~ ISAs. In these circumstances the auditor shall evaluate:
- (a) Whether users might misunderstand the assurance obtained from the audit of the entity's financial statements; and if so
 - (b) Whether additional explanation in the auditor's report (~~see [proposed] ISA 706 (Revised and Redrafted), "Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report"~~) can mitigate possible misunderstanding.³

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless prohibited by law or regulation from doing so. An audit conducted in accordance with such law or regulation does not comply with ~~the~~ ISAs. Accordingly, the auditor shall

³ [Proposed] ISA 706 (Revised and Redrafted), "Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report."

include no reference within the auditor's report to the audit having been conducted in accordance with the ISAs. (Ref: Para. ~~A26~~ A31 and ~~A29~~ A34)

Financial Reporting Standards Supplemented by Law or Regulation—Conflicts

~~16.45.~~ If financial reporting standards established by an authorized or recognized standards setting organization are supplemented by law or regulation, the auditor shall determine whether there are any conflicts between the financial reporting standards and the additional requirements. If such conflicts exist, the auditor shall discuss with ~~the~~ entity management and, where appropriate, those charged with governance the nature of the additional requirements and shall agree whether:

- (a) The additional requirements can be met through additional disclosures in the entity's financial statements, or
- (b) The description of the applicable financial reporting framework in the entity's financial statements can be amended accordingly.

If neither of the above actions is possible, the auditor shall determine whether it will be necessary to modify the audit opinion in the auditor's report in accordance with [proposed] ISA 705 (Revised and Redrafted), ~~“Modifications to the Opinion in the Independent Auditor's Report.”~~⁴ (Ref: Para. ~~A27~~ A32)

Financial Reporting Framework Prescribed by Law or Regulation—Determined as Unacceptable

~~17.46.~~ If the auditor has determined that the financial reporting framework prescribed by law or regulation is unacceptable, the auditor may nevertheless agree to accept the audit engagement but shall do so only if: (Ref: Para. A33-A34)

- (a) ~~The entity Management or those charged with governance agrees~~ to provide additional disclosures in the entity's financial statements, to avoid the financial statements being misleading; and
- (b) It is recognized in the terms of the audit engagement that:
 - (i) The auditor's report on the entity's financial statements will incorporate an Emphasis of Matter paragraph, drawing users' attention to the additional disclosures, in accordance with [proposed] ISA 706 (Revised and Redrafted), and
 - (ii) Unless the auditor is required by law or regulation to express the auditor's opinion on the entity's financial statements by using the phrases “give a true and fair view” or “present fairly, in all material respects” in accordance with

⁴ [Proposed] ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor's Report.”

the applicable financial reporting framework, the auditor's opinion on the entity's financial statements will not include such phrases. ~~(Ref: Para. A28-A29)~~

18.17. If ~~the entity management or those charged with governance~~ refuses to provide additional disclosures, and the auditor is prohibited by law ~~and~~ or regulation from refusing to undertake the audit engagement, the auditor shall:

- (a) Evaluate the effect of the misleading nature of the entity's financial statements on the auditor's report; and
- (b) Include appropriate reference to this matter in the terms of the audit engagement.

Application and Other Explanatory Material

Objective (Ref: Para. 3)

Audit Engagement Acceptance

- A1. Establishing whether the necessary preconditions for an audit are present and agreeing on the audit engagement terms are complemented by acceptance and continuance requirements in [proposed] ISA 220 (Redrafted), ~~“Quality Control for an Audit of Financial Statements.”~~⁵
- A2. The responsibilities of management and those charged with governance for agreeing the terms of the audit engagement for the entity depend on the governance structure of the entity and relevant legislation.

Preconditions for an Audit ~~(Ref: Para. 4-6)~~

The Financial Reporting Framework (Ref: Para. 4(a))

- A3. 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.
- A4. Without an acceptable financial reporting framework, management does not have an appropriate basis for ~~preparing and presenting the preparation and presentation of~~ the financial statements and the auditor does not have suitable criteria for evaluating the

⁵ [Proposed] ISA 220 (Redrafted), “Quality Control for an Audit of Financial Statements,” paragraphs [11-12].

entity's financial statements. In many cases the auditor may presume that the financial reporting framework is acceptable, as described in paragraphs A8 and A9.

Determining the Acceptability of the Financial Reporting Framework

A5. 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 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.

A6. 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 ~~that is~~ designed to meet the common financial information needs of a wide range of users are referred to as general purpose financial statements.

A7. 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. [Proposed] ISA 800 (Revised and Redrafted), ~~“Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”~~⁶ discusses the acceptability of financial reporting frameworks designed to meet the financial information needs of specific users.

General purpose frameworks

A8. 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

⁶ [Proposed] ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement,” paragraphs [9-10].

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.

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

- A9. In accordance with paragraph 4(a), the auditor is required to determine whether the financial reporting framework, adopted in ~~preparing the preparation and presentation of~~ the financial statements, is acceptable. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used in ~~preparing and presenting the preparation and presentation of~~ general purpose financial statements for certain types of entities. 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. (In the event that the framework is not considered to be acceptable, paragraphs ~~16 17~~ and ~~17 18~~ apply.)

Jurisdictions that do not have authorized or recognized standards setting organizations or financial reporting frameworks prescribed by law or regulation

- A10. 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, ~~the entity management or those charged with governance identifies~~ an applicable financial reporting framework. Appendix 2 contains guidance on determining the acceptability of financial reporting frameworks in such circumstances.

~~Acknowledgement and Agreement of the Responsibilities of Management and, where appropriate, Those Charged with Governance~~ (Ref: Para. 4(b), 5)

- A11. ~~[Proposed] ISA 200 (Revised and Redrafted), "Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing" states that audits are~~ An audit in accordance with ISAs is conducted on the

premises that management and, where appropriate, those charged with governance ~~have; acknowledge and understand~~ the responsibilities set out in paragraph 4(b) of this ISA.⁷ ~~These~~ This premises ~~are~~ is fundamental to the ~~ability to~~ conduct of an effective independent audit, ~~but there may be a risk that these premises may not be understood~~. To avoid misunderstanding, agreement is reached with management and, where appropriate, those charged with governance ~~about that they acknowledge and understand~~ their responsibilities, as part of agreeing and recording the terms of the audit engagement.

- A12. ~~Since [proposed] ISA 580 (Revised and Redrafted), "Written Representations" requires Paragraph 5 permits~~ the auditor to obtain ~~written representations about the validity of these premises, it may also be appropriate to make~~ the agreement of management and, where appropriate, those charged with governance that they acknowledge and understand their responsibilities using the wording of law or regulation that is equivalent in effect to those described in paragraph 4(b). In some jurisdictions, the accounting profession or a national standard setter, on behalf of auditors, may consider whether the responsibilities established by law or regulation are equivalent for this purpose.

- A13. The auditor is required to request management and, where appropriate those charged with governance to provide written representations that they have fulfilled these responsibilities.⁸ It may therefore be appropriate to make them aware that receipt of such written representations will be expected, together with written representations required by other ISAs and, where ~~appropriate necessary~~, specific written representations about specific assertions in the financial statements.

- A13. ~~Management and, where appropriate, those charged with governance, are also responsible for providing complete information to the auditor (see paragraph 4(b)(iii)). Providing complete information includes granting unrestricted access to records, documentation and other information that is requested by the auditor in connection with the audit of the entity.~~

- A14. Where management and, where appropriate, those charged with governance will not ~~make the necessary acknowledgements and agreements, or will not~~ agree to their responsibilities, or to provide the ~~necessary~~ written representations, the auditor will be unable to obtain sufficient appropriate audit evidence.⁹ In such circumstances, it may not be appropriate for the auditor to accept the audit engagement. In some cases, however, law or regulation ~~prevents~~ may prohibit the auditor from ~~refusing declining~~ an audit engagement. In these cases, the auditor may need to explain to management and, where appropriate, those charged with governance the importance of these matters, and the implications for the auditor's report.

⁷ [Proposed] ISA 200 (Revised and Redrafted), "Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing," paragraph [8].

⁸ [Proposed] ISA 580 (Revised and Redrafted), "Written Representations," paragraphs [10-11].

⁹ [Proposed] ISA 580 (Revised and Redrafted), paragraph [A28].

Internal Control (Ref: Para. 4(b)(i))

A15. “Internal control” is defined as: “The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control assists management in fulfilling its responsibility for the preparation and presentation of the financial statements.”¹⁰

A16. Internal control is an important aspect of the responsibility of management and, where appropriate, those charged with governance for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework. Accordingly, the auditor obtains their agreement that they acknowledge and understand that this responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

A17. In some jurisdictions, law or regulation may refer to the responsibility of management and, where appropriate, those charged with governance for the adequacy of accounting books and records, or accounting systems. As books, records and systems are an integral part of internal control as defined in paragraph A15, no specific reference is made to them in paragraph 4(b) for the description of the responsibility of management and, where appropriate, those charged with governance. To avoid misunderstanding, it may be appropriate for the auditor to explain to management and those charged with governance the scope of this responsibility.

Considerations Specific to Smaller Entities (Ref: Para. 4(b))

A18. Owner-managers of small entities may not be fully aware of their responsibilities or those of their auditors. In particular, they may not appreciate that the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework is their responsibility, particularly where they have outsourced the preparation and presentation of the financial statements. One of the purposes of agreeing the terms of the audit engagement is to communicate clearly the respective responsibilities of owner-managers and their auditors.

A19. Furthermore, due to the nature of small entities (for example, lack of a sophisticated internal control system) owner-managers may be of the opinion that it is not possible to provide the requested written representations.¹¹ Making the owner-manager aware that receipt of such written representations will be expected (see paragraph A13) provides an opportunity for the auditor to discuss with the owner-manager, at the outset of the audit

¹⁰ ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment,” paragraph 4(c).

¹¹ [Proposed] ISA 580 (Revised and Redrafted), paragraphs [10-11].

engagement, the nature of the written representations and the reasons for requesting them. This may help to avoid a problem arising as the audit is nearing completion.

Agreement on Audit Engagement Terms ~~(Ref: Para. 7-8)~~

*Audit Engagement Letter or Other Form of Written Agreement*¹² ~~(Ref: Para. 7-8)~~

A20.A15. It is in the interest of both entity and auditor that the auditor sends an audit engagement letter before the commencement of the audit, to help ~~in~~ avoiding misunderstandings with respect to the audit. In some countries, however, the objective and scope of an audit and the auditor's ~~obligations~~ responsibilities may be sufficiently established by law, that is, they prescribe the matters described in paragraphs 4 and ~~8~~ 9. Even in those situations the auditor may still find an audit engagement letter informative for these entities.

Considerations Specific to Public Sector Entities ~~—Terms of Audit Engagements~~

A21.A16. Law ~~and or~~ regulation governing the operations of public sector audits generally mandate the appointment of a public sector auditor and commonly set out the public sector auditor's responsibilities and powers, including the power to access an entity's records and other information. When law or regulation prescribes in sufficient detail the terms of the audit engagement, the public sector auditor may nonetheless consider that there are benefits in issuing audit engagement letters. When law or regulation does not prescribe in sufficient detail the terms of the audit engagement, a letter setting out those elements of paragraph ~~8~~ 9 of this ISA not sufficiently covered by law or regulation would satisfy this requirement.

Audits of Components

A22.A17. 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 audit engagement letter to the component include the following:

- Who appoints the auditor of the component;
- Whether a separate auditor's report is to be issued on the component;
- Legal requirements in relation to audit appointments;
- The extent of any work performed by other auditors;
- Degree of ownership by parent; and
- Degree of independence of the component's management.

¹² In the paragraphs that follow, any reference to an audit engagement letter is to be taken as a reference to an audit engagement letter or other suitable form of written agreement.

Form and Content of the Audit Engagement Letter (Ref: Para. 8 9)

A23.A18. The form and content of the audit engagement letter may vary for each entity. Information included in the audit engagement letter on the ~~respective auditor's~~ responsibilities may be based on [proposed] ISA 200 (Revised and Redrafted).¹³ Paragraphs 4(b) and 5 of this ISA deal with the description of the responsibilities of auditor and management and, where appropriate, those charged with governance, may be based on [proposed] ISA 200 (Revised and Redrafted). In addition to including the matters required by paragraph 8 9, an audit engagement letter may make reference to, for example:

- 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.
- The form of any other communication of results of the audit engagement.
- 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.
- Arrangements regarding the planning and performance of the audit.
- The expectation ~~of receiving written confirmation concerning that management and, where appropriate, those charged with governance will provide written representations made in connection with the audit~~ (see also paragraph ~~A12 A13~~).
- The agreement of the entity management or those charged with governance to make available to the auditor draft financial statements and any accompanying other information in time to allow the auditor to complete the audit in accordance with the proposed timetable.
- The basis on which fees are computed and any billing arrangements.
- A request for the entity management or those charged with governance to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.

A24.A19. When relevant, the following points could also be made in the audit engagement letter:

- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- Arrangements concerning the involvement of internal auditors and other staff of the entity.

¹³ [Proposed] ISA 200 (Revised and Redrafted), paragraphs [4-6].

- Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
- Any restriction of the auditor's liability when such possibility exists.
- A reference to any further agreements between the auditor and the entity.
- The agreement of ~~the entity management or those charged with governance~~ to inform the auditor of facts, that may affect the ~~entity's~~ financial statements, of which ~~the entity management or those charged with governance~~ may become aware during the period from the date of the auditor's report to the date the financial statements are issued.
- Any obligations to provide audit working papers to other parties.

An example of an audit engagement letter is set out in Appendix 1.

Recurring Audits (Ref: Para. ~~9~~ 10)

~~A25.A20.~~ The auditor may decide not to send a new engagement letter or other written ~~contract agreement~~ each period. However, the following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:

- Any indication that the entity misunderstands the objective and scope of the audit.
- Any revised or special terms of the audit engagement.
- A recent change of senior management or those charged with governance.
- A significant change in ownership.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements.
- A change in the financial reporting framework adopted in ~~preparing the preparation~~ and presentation of the entity's financial statements.
- A change in other reporting requirements.

Acceptance of a Change in the Terms of the Audit Engagement

Request to Change the Terms of the Audit Engagement (Ref: Para. ~~40~~ 11)

~~A26.A21.~~ A request from the entity for the auditor to change the audit engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit as originally requested or a restriction on the scope of the audit engagement, whether imposed by ~~the entity management or those charged with governance~~ or caused by circumstances. The auditor, as required by paragraph ~~40~~ 11, considers the reason given for the request, particularly the implications of a restriction on the scope of the audit engagement.

~~A27.A22.~~ A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of the service originally requested may be considered a reasonable basis for requesting a change in the audit engagement.

~~A28.A23.~~ In contrast, a change may not be considered reasonable if it appears that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory. An example might be where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the entity asks for the audit engagement to be changed to a review engagement to avoid a qualified audit opinion or a disclaimer of opinion.

Request to Change to a Review or a Related Service (Ref: Para. ~~44~~ 12)

~~A29.A24.~~ Before agreeing to change an audit engagement to **a review or** a related service, an auditor who was engaged to perform an audit in accordance with ~~the~~ ISAs may need to assess, in addition to the above matters, any legal or contractual implications of the change.

~~A30.A25.~~ If the auditor concludes that there is reasonable justification to change the audit engagement to **a review or** a related service, the audit work performed to the date of change may be relevant to the changed engagement; however, the work required to be performed and the report to be issued would be those appropriate to the revised engagement. In order to avoid confusing the reader, the report on the related service would not include reference to:

- (a) The original audit engagement; or
- (b) Any procedures that may have been performed in the original audit engagement, except where the audit 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.

Additional Considerations in Engagement Acceptance

Wording Used to Express the Opinion (Ref: Para. ~~14~~ 15)

~~A31.A26.~~ **The ISAs require¹⁴ that the auditor shall not represent compliance with the ISAs unless the auditor has complied with all of the ISAs relevant to the audit.¹⁵** When law or regulation prescribes the wording of the auditor's report in terms that are significantly different from the requirements of ~~the~~ ISAs and the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor may consider including a statement in the auditor's report that the audit is not conducted in accordance with ~~the~~ ISAs. **The auditor is, however, encouraged to apply the ISAs, including the ISAs that address the auditor's report, to the extent practicable,**

¹⁴ ~~Refer ISA 200-Objective and General Principles Governing an Audit of Financial Statements~~

¹⁵ ~~[Proposed] ISA 200 (Revised and Redrafted), paragraph [22].~~

notwithstanding that the auditor is not permitted to refer to the audit being conducted in accordance with the ISAs.

Financial Reporting Standards Supplemented by Law or Regulation—Conflicts (Ref: Para. ~~15~~ 16)

A32.A27. 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 the preparation and presentation of~~ 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.

Financial Reporting Framework Prescribed by Law or Regulation—Determined as Unacceptable (Ref: Para. ~~15, 16, 17 and 17, 18~~)

A33.A28. 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 requirements of paragraphs ~~16, 17~~ and ~~17, 18~~ apply. When use of that framework is not prescribed by law or regulation, the entity management or those charged with governance may decide to adopt another framework that is acceptable. When the entity management or those charged with governance does so, new terms of the audit engagement may need to be agreed to reflect the change in the framework as the previously agreed terms may no longer be accurate.

A34.A29. Law or regulation may prescribe that the wording of the auditor's opinion use the phrases "give a true and fair view" or "present fairly, in all material respects," although the auditor concludes that the applicable financial reporting framework prescribed by law or regulation is unacceptable. In this case, the terms of the prescribed wording of the audit opinion are significantly different from the requirements of the ISAs (see paragraph 14, 15).

If the auditor concludes that the applicable financial reporting framework prescribed by law or regulation is unacceptable and:

- (a) law or regulation prescribes that the wording of the auditor's opinion use the phrases "give a true and fair view" or "present fairly, in all material respects;" and
- (b) the auditor is prohibited by law or regulation from refusing to undertake the audit engagement,

paragraph 14 also applies.

Considerations Specific to Audits of Public Sector Entities

A35.A30. In the public sector, specific requirements may exist within the legislation governing the audit mandate; for example, the auditor may be required to report directly to a minister, the legislature or the public if the entity attempts to limit the scope of the audit.

Appendix 1(Ref: Para. [A19 A24](#))**Example of an Audit Engagement Letter**

The following is an example of an audit engagement letter for an audit of general purpose financial statements prepared and presented in accordance with International Financial Reporting Standards. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISA. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 10 of this ISA). It may be appropriate to seek legal advice that any proposed letter is suitable.

To the appropriate representative of senior management:¹⁶

[The objective and scope of the audit]

You have requested that we audit the financial statements of, which comprise the balance sheet as at, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

[The responsibilities of the auditor]

We will conduct our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 misstatements may remain undiscovered.

¹⁶ The addressees and references in the letter to management or those charged with governance would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we expect to provide you with a separate letter concerning any material weaknesses in the design or implementation of internal control over financial reporting that come to our attention during the audit of the financial statements.

[The responsibilities of management and, where appropriate, those charged with governance, and identification of the applicable financial reporting framework (for purposes of this example it is assumed that the auditor has not determined whether the law or regulation prescribes those responsibilities in appropriate terms; the description in paragraph 4(b) of this ISA is therefore used).]

Our audit will be conducted on the basis that management and, where appropriate, those charged with governance ~~accept the following responsibilities~~ acknowledge and understand their responsibility:

- (a) ~~The responsibility for the preparation and fair presentation of the financial statements that present fairly the financial position, financial performance and cash flows of the entity (or preparation and presentation of financial statements that give a true and fair view) in accordance with International Financial Reporting Standards; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. This includes selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.~~
- (b) ~~The responsibility for 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.~~
- (c) ~~The responsibility to provide us with complete information including unrestricted access to records, documentation and other information requested in connection with our audit. To provide us with:~~
 - (i) All information that is relevant to the preparation and presentation of the financial statements, such as records, documentation, and other matters that support the financial statements;
 - (ii) Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and
 - (iii) Unrestricted access to those within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management and, where appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

We expect to report as follows:

[Insert text of sample report or include as an attachment.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....

Name and Title

Date

Appendix 2

(Ref: Para. A10)

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 A10 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, **the entity management or those charged with governance 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 A8 of this ISA.
2. 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, the auditor is required by paragraph 4(a) to determine 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 may make this determination by considering whether the accounting conventions exhibit attributes normally exhibited by acceptable financial reporting frameworks (see paragraph 3 below), or by comparing the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable (see paragraph 4 below).
3. 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:

- (i) Where applicable, reflects the economic substance of events and transactions and not merely their legal form; and
 - (ii) 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.
4. 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 in ~~preparing and presenting the preparation and presentation of~~ 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.
5. 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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