

Proposed Changes to ISA 210, “Terms of Audit Engagements”—For Illustrative Purposes Only

Introduction

[No changes are proposed to 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 paragraphs 5-9. These paragraphs are also not necessary to provide context to the proposed changes. 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. As stated in ISA 200 the acceptability of the financial reporting framework adopted by management in preparing the financial statements will depend on the nature of the entity, ~~and on~~ the objective and nature of the financial statements, the applicable legislative and regulatory requirements, and other matters such as events, transactions, conditions and practices that may have a significant effect on the engagement. In some cases, the objective of the financial statements will be to meet the common financial information needs of a wide range of users; in others, to meet the financial information needs of specific users.
12. ~~ISA 200 describes the financial reporting frameworks that are presumed to be acceptable for general purpose financial statements, and how the auditor determines the acceptability of other financial reporting frameworks. Legislative and regulatory requirements often identify the applicable financial reporting framework for general purpose financial statements. In most cases, the applicable financial reporting framework will be established by a standards setting organization that is authorized or recognized to promulgate standards in the jurisdiction in which the entity is registered or operates.~~
13. **The auditor should accept an engagement for an audit of financial statements only when the auditor concludes that the financial reporting framework adopted by management is acceptable or when it is required by law or regulation. When law or regulation requires use of a financial reporting framework ~~for general purpose financial statements~~ that the auditor considers to be unacceptable, the auditor should accept the engagement only if the deficiencies in the framework can be adequately explained to avoid misleading users.**
14. Without an acceptable financial reporting framework management does not have an appropriate basis for preparing the financial statements and the auditor does not have suitable criteria for evaluating the entity’s financial statements. In these circumstances, unless use of the financial reporting framework is required by law or regulation, the auditor encourages management to address the deficiencies in the financial reporting

framework or to adopt another financial reporting framework that is acceptable. When the financial reporting framework is required by law or regulation and management has no choice but to adopt this framework, the auditor accepts the engagement only if the deficiencies can be adequately explained to avoid misleading users, see [proposed] ISA 7016, “~~Modifications to the Independent Auditor’s Report~~ **Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor’s Report;**” ~~paragraph 5~~ and, unless required by law or regulation to do so, does not express the opinion on the financial statements using the terms “give a true and fair view” or “are presented fairly, in all material respects,” in accordance with the applicable financial reporting framework.

15. ~~When the auditor accepts an engagement involving an applicable financial reporting framework that is not established by an organization that is authorized or recognized to promulgate standards for general purpose financial statements of certain types of entities, ¶~~ The auditor may encounter deficiencies in ~~that~~ the applicable financial reporting framework that were not anticipated when the engagement was initially accepted and that indicate that the framework is not acceptable ~~for general purpose financial statements~~. In these circumstances, the auditor discusses the deficiencies with management and the ways in which such deficiencies may be addressed. If the deficiencies result in financial statements that are misleading and there is agreement that management will adopt another financial reporting framework that is acceptable, the auditor refers to the change in the financial reporting framework in a new engagement letter. If management refuses to adopt another financial reporting framework, the auditor considers the impact of the deficiencies on the auditor’s report, see [proposed] ISA ~~704~~ 706.

Agreement on the Form of Opinion

- 15a. The terms of the engagement should identify the form of opinion to be expressed on the financial statements. *[Note: Should the IAASB agree to this section, conforming amendments to paragraph 6 and Example of an Audit Engagement Letter in the Appendix to the ISA will be necessary.]*
- 15b. ISA 200 discusses the form of opinion to be expressed on financial statements. When wording prescribed by law or regulation differs significantly from the phrases described in ISA 200, the auditor carefully 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 [proposed] ISA 706).
- 15c. When wording prescribed by law or regulation implies or requires a level of assurance different from that ordinarily obtained in an audit of financial statements (for example, when it requires a certification of fact), the auditor confirms the required level of assurance with management, and considers carefully whether the required level of assurance can be obtained, for example, by amending the scope of the audit. **If the auditor concludes that the required level of assurance cannot be obtained, the auditor should not accept the engagement.**

Recurring Audits

[No changes are proposed to paragraphs 16-17. These paragraphs are also not necessary to provide context to the proposed changes. As a result, they have not been reproduced here.]

Acceptance of a Change in Engagement

[No changes are proposed to paragraphs 18-25. These paragraphs are also not necessary to provide context to the proposed changes. As a result, they have not been reproduced here.]

Effective Date

26. This ISA is effective for audits of financial statements for periods beginning on or after ~~December 15, 2005~~ [date].

Public Sector Perspective

[No changes are proposed to the PSP. The PSP is also not necessary to provide context to the proposed changes. As a result, it has not been reproduced here.]

Appendix: Example of an Engagement Letter

[No changes are proposed to the Appendix. The Appendix is also not necessary to provide context to the proposed changes. As a result, it has not been reproduced here.]

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