

Proposed Changes to ISA 210, “Terms of Audit Engagements” (CLEAN)**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. 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 applicable financial reporting framework will depend on the nature of the entity, the objective and nature of the financial statements, and whether applicable legislative and regulatory requirements prescribe the financial reporting framework. The financial statements may be prepared and presented in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users or a financial reporting framework designed to meet the financial information needs of specific users.
12. ISA 200 describes the financial reporting frameworks that are presumed to be acceptable, and how the auditor determines the acceptability of other financial reporting frameworks.
13. **The auditor should accept an engagement for an audit of financial statements only when the auditor concludes that the applicable financial reporting framework is acceptable or when it is required by law or regulation. Where law or regulation prohibits an auditor from refusing an engagement to audit financial statements, the auditor should consider the effect of any deficiencies in the applicable financial reporting framework on the audit opinion in accordance with [proposed] ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report.” [Part of paragraph moved to 14a]**
14. 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 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. **[Part of paragraph moved to 14b]**
- 14a. **When law or regulation requires use of a financial reporting framework that the auditor would otherwise consider to be unacceptable, the auditor should accept the engagement only if any deficiencies in the framework can be adequately disclosed in the financial statements to avoid misleading users.**

- 14b. 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 any deficiencies can be adequately disclosed in the financial statements to avoid misleading users. In addition, the auditor includes an emphasis of matter paragraph in the auditor's report in accordance with [proposed] ISA 706, "Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report." Unless 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 "are presented fairly, in all material respects," in accordance with the applicable financial reporting framework. **If the financial statements do not adequately disclose the deficiencies in the financial reporting framework to avoid misleading users, the auditor should consider the effect of the deficiencies the audit opinion in accordance with [proposed] ISA 705.**
15. The auditor may encounter deficiencies in the applicable financial reporting framework that were not anticipated when the engagement was initially accepted and that indicate that the framework is not acceptable. 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 change in the financial reporting framework is agreed in new terms of engagement. If management refuses to adopt another financial reporting framework, or where the financial reporting framework is required by law or regulation, the auditor considers the effect of the deficiencies in the framework on the audit opinion in accordance with [proposed] ISA 705.

Form of Opinion

- 15a. ISA 200 discusses the form of opinion to be expressed as a result of an audit of financial statements. When wording prescribed by law or regulation differs significantly from the phrases described in ISA 200, 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 [proposed] ISA 706).
- 15b. 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 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.**
- 15c. Law or regulation, however, may prohibit an auditor from refusing such an engagement to audit financial statements. An audit conducted in accordance with such law or regulation will not comply with the ISAs.

Recurring Audits

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

Acceptance of a Change in Engagement

[No changes are proposed to paragraphs 18-25. 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 [date].

Public Sector Perspective

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

Appendix: Example of an Engagement Letter

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

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