



**International Federation of Accountants**

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**Agenda Item**

**12**

**Committee:** IAASB  
**Meeting Location:** Madrid  
**Meeting Date:** September 24–28, 2007

**Proposed ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements”**

**Objective of Agenda Item**

1. To consider further and approve the revised draft of proposed ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements” for exposure.

**Task Force Composition**

2. The Task Force members are:
  - Ian McPhee (Chair) IAASB Member
  - John Kellas IAASB Chairman
  - Richard Mifsud IAASB Technical Advisor

**Background**

3. The initial draft of proposed ISA 210 (Redrafted) was considered at the April 2007 IAASB meeting and a revised version considered at the July 2007 IAASB meeting.
4. The Task Force re-organized and amended the proposed ISA in line with the comments and suggestions received at the IAASB meetings and off-line from IAASB Members. There were only three matters that required further consideration following the July meeting and these are summarized below.
5. There are in addition some possible changes arising from consideration of responses to the Exposure Draft (ED) of proposed ISA 580 (Revised and Redrafted), “Written Representations.” Those changes have not been incorporated in the draft attached to this Agenda Item; they are included in Agenda Item 2-C and will be discussed during the IAASB’s consideration of proposed ISA 580 (Revised and Redrafted) (scheduled to precede the discussion of this Agenda Item). Those changes and any consequential amendments required as a result of that discussion can be incorporated in the ED of proposed ISA 210 (Redrafted), if so agreed by the IAASB.
6. At the July 2007 IAASB meeting there was some concern expressed that use of the term “those charged with governance” was not consistent with use of the term in other ISAs, particularly the revised and redrafted ISAs 200, 260 and 580. Furthermore, the Task Force was asked to review each instance in which management or those charged with governance is mentioned in the draft, and to

consider whether it should apply to one or other, or both. The Task Force was also asked to consider alternative terms such as “entity”. In this context, extant ISA 210 refers to the “client,” as does extant ISQC 1, however, use of the term “client” has not been adopted in recent revisions and clarity redrafts of the ISAs. For this reason, the word “entity” has been adopted in most cases in proposed ISA 210 (Redrafted) so as to align with the term used in the objective paragraph (para. 3(b)) as the general rule. Notwithstanding this, the term “those charged with governance” has been used in paragraphs 4, 8, A11-A14 and A18 so as to ensure alignment with 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.” Furthermore, a new paragraph (para. A2) has been added to the Application Material explaining that 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. This approach has resolved the potential confusion and does not affect the interpretation of other ISAs, nor does it require their drafting to be re-examined. (Note that some of the changes proposed by the ISA 580 Task Force bear upon the extent to which it is necessary to refer to those charged with governance as well as management.)

7. A further matter that was raised at the July 2007 IAASB meeting was a concern over the content in the last sentence of paragraph 17 (now paragraph 14), namely:

*“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)) can mitigate possible misunderstanding.*

*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 which the auditor is thereby required to accept is not an audit conducted in accordance with the ISAs.”*

It was noted that this requirement would seem to imply that an auditor could accept an engagement to report on financial statements prepared in accordance with an unacceptable financial reporting framework using a specified fair presentation form of opinion with no warning being given about the unacceptability of that framework. Admittedly, the audit report could not claim that the audit has been conducted in accordance with ISAs but this alone did not satisfy the concern.

The sentence was added during deliberations of the close off document, in response to the issue of an auditor being unable to decline or resign from an audit where these circumstances exist. The IAASB agreed with the inclusion of the sentence at that time.

Part of the concern appears to be that paragraph 17 quoted above was thought to override the requirements of paragraph 14 (now paragraph 16) in respect of unacceptable frameworks, and in particular the need for further explanation in the financial statements and an Emphasis of Matter in the audit report. The Task Force has responded in the proposed ISA by reordering paragraphs 14-17 under a new heading *Additional Considerations in Engagement Acceptance* and strengthening the last sentence in paragraph 17 (now paragraph 14) to require the auditor not to refer, in the audit report, to the audit as being one conducted in accordance with the ISAs. In addition, a new explanatory paragraph has been introduced in the Application Material (para. A26)—in these circumstances the ISAs do not apply; however, the new guidance paragraph advises the auditor to consider including a statement in the auditor's report that the audit is not conducted in accordance with the ISAs. Also, paragraph A29 has been added as explanatory material to make it clear that the requirement relating to prescribed forms of opinion applies in addition to the auditor's reporting considerations when required to accept an audit where the required framework is unacceptable and law or regulation requires a fair presentation form of opinion.

8. Finally, in approving proposed ISA 706 (Revised and Redrafted), "Emphasis of Matter Paragraph and Other Matter(s) Paragraphs in the Independent Auditor's Report" as an ED, the IAASB agreed to delete the circumstance referred to in paragraph 16(b)(i) of proposed ISA 210 (Redrafted), which was listed in the close off document of ISA 706 as an example of when an Emphasis of Matter paragraph might be used. It was suggested that the ISA 210 Task Force might consider any need to propose a conforming amendment to proposed ISA 706 (Revised and Redrafted) to deal with the issue, which was a concern that neither proposed ISA 706 (Revised and Redrafted) nor any other ISA contained a specific requirement to include an Emphasis of Matter paragraph in the circumstances (unlike the case of the other 2 examples, where other ISAs contained the necessary requirement to which proposed ISA 706 (Revised and Redrafted) was referring).
9. Other than possibly reinstating the deleted example to proposed ISA 706 (Revised and Redrafted), the Task Force does not think that any further amendment is necessary. Paragraph 16(b)(i) of proposed ISA 210 (Redrafted) requires the auditor in the relevant circumstances to advise the entity through the engagement letter that an Emphasis of Matter paragraph will be included in the auditor's report 'in accordance with ISA 706'. That proposed ISA 706 (Revised and Redrafted) does not refer explicitly to these circumstances as giving rise to the need for an emphasis does not alter the fact that, like all Emphases of Matter paragraphs whether specifically anticipated by proposed ISA 706 (Revised and Redrafted) or not, the emphasis would be 'in accordance with ISA 706.' The Task Force concluded that the drafting of paragraph 16(b)(i) should remain as presented in July, and that no further amendments are required to proposed ISA 706 (Revised and Redrafted).

#### **Activities since Last IAASB Discussions**

10. The Task Force held several discussions on the issues referred to above.

## **Material Presented**

Agenda Item 12-A      Proposed ISA 210 (Redrafted) (Clean)  
(Pages 2931 – 2948)

Agenda Item 12-B      Proposed ISA 210 (Redrafted) (Mark-up)  
(Pages 2949 – 2968)

Agenda Item 12-C      Proposed ISA 210 (Redrafted) (Mark-up discussed at the July 2007  
(Pages 2969 –2986)      IAASB Meeting) (FOR INFORMATIONAL PURPOSES ONLY)

## **Action Requested**

The IAASB is asked to:

- Consider the Task Force’s response to the matters described in paragraphs 5 to 9 above;
- Review proposed ISA 210 (Redrafted), for which purpose the mark-up (**Agenda Item 12-B**) will be used at the meeting; and
- Approve proposed ISA 210 (Redrafted) for issue as an ED.