

**INTERNATIONAL STANDARD ON AUDITING 210
(REDRAFTED)**

AGREEING THE TERMS OF AUDIT ENGAGEMENTS

(Effective for audits of financial statements for periods beginning on or after December 15, 2009)

[MARK UP BASED ON SEPTEMBER 18, 2008 DRAFT]

CONTENTS

	Paragraph
Introduction	
Scope of this ISA	1
Effective Date	2
Objective	3
Definitions	4-5
Requirements	
Preconditions for an Audit	6-8
Agreement on Audit Engagement Terms	9-12
Recurring Audits	13
Acceptance of a Change in the Terms of the Audit Engagement	14-17
Additional Considerations in Engagement Acceptance	18-21
Application and Other Explanatory Material	
Scope of this ISA	A1
Preconditions for an Audit	A2-A19
Agreement on Audit Engagement Terms	A20-A26
Recurring Audits	A27
Acceptance of a Change in the Terms of the Audit Engagement	A28-A32
Additional Considerations in Engagement Acceptance	A33-A36
Appendix 1: Example of an Audit Engagement Letter	
Appendix 2: Determining the Acceptability of General Purpose Frameworks	

International Standard on Auditing (ISA) 210, “Agreeing the Terms of Audit Engagements” should be read in conjunction with ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

[Note: Changes agreed by the IAASB on September 18 are shown in marked text and highlighted in yellow. Subsequent changes, other than editorial changes, are shown in marked text only.]

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with governance, are present. ISA 220 (Redrafted)¹ deals with those aspects of engagement acceptance that are within the control of the auditor. (Ref: Para. A1)

Effective Date

2. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

Objective

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

Definitions

4. For purposes of the ISAs, the following term has the meaning attributed below:

Preconditions for an audit – The use by management **and, where appropriate, those charged with governance** of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management to the premise² on which an audit is conducted.
5. For the purposes of this ISA, references to “management” should be read as “management and, where appropriate, those charged with governance.”

¹ ISA 220 (Redrafted), “Quality Control for an Audit of Financial Statements.”

² ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing,” paragraph 13.

Requirements

Preconditions for an Audit

6. In order to establish whether the preconditions for an audit are present, the auditor shall:
 - (a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable; and (Ref: Para. A2-A10)
 - (b) Obtain the agreement of management that it acknowledges and understands its responsibility: (Ref: Para A11-A14, A19)
 - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation; (Ref: Para. A15)
 - (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and (Ref: Para. A16-A18)
 - (iii) To provide the auditor with:
 - a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. Additional information that the auditor may request from management for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Limitation on Scope Prior to Audit Engagement Acceptance

7. If management or those charged with governance impose 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 financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

Other Factors Affecting Audit Engagement Acceptance

8. If the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement:
 - (a) If the auditor has determined that the ~~applicable~~ financial reporting framework to be applied in the preparation of the financial statements is unacceptable, except as provided in paragraph 19; or
 - (b) If the agreement referred to in paragraph 6(b) has not been obtained.

Agreement on Audit Engagement Terms

9. The auditor shall agree the terms of the audit engagement with management. (Ref: Para. A20)
10. Subject to paragraph 11, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A21-A24)
 - (a) The objective and scope of the audit of the financial statements;
 - (b) The responsibilities of the auditor;
 - (c) The responsibilities of management;
 - (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
 - (e) **Reference to the expected** form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.
11. If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10, the auditor need not record them in a written agreement, except for the agreement of management that it acknowledges and understands its responsibilities as set out in paragraph 6(b). (Ref: Para. A21, A25-A26)
12. If law or regulation prescribes the responsibilities of management in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, are equivalent in effect to those set out in paragraph 6(b). For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the written agreement. For those responsibilities that are not prescribed by law or regulation such that their effect is equivalent, the written agreement shall use the description in paragraph 6(b). (Ref: Para. A25)

Recurring Audits

13. On recurring audits, the auditor shall assess 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. A27)

Acceptance of a Change in the Terms of the Audit Engagement

14. 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. A28-A30)
15. If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so. (Ref: Para. A31-A32)
16. If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

17. If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:
 - (a) Withdraw from the audit engagement; and
 - (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

Additional Considerations in Engagement Acceptance

Financial Reporting Standards Supplemented by Law or Regulation

18. 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 management the nature of the additional requirements and shall agree whether:
 - (a) The additional requirements can be met through additional disclosures in the financial statements; or
 - (b) The description of the applicable financial reporting framework in the 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 auditor's opinion in accordance with ISA 705 (Revised and Redrafted).³ (Ref: Para. A33)

Financial Reporting Framework Prescribed by Law or Regulation—Other Matters Affecting Acceptance

19. If the auditor has determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor shall accept the audit engagement only if the following conditions are present: (Ref: Para. A34)
 - (a) Management agrees to provide additional disclosures in the financial statements required 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 financial statements will incorporate an Emphasis of Matter paragraph, drawing users' attention to the additional disclosures, in accordance with ISA 706 (Revised and Redrafted); and
 - (ii) Unless the auditor is required by law or regulation to express the auditor's opinion on the financial statements by using the phrases "present fairly, in all material respects," or "give a true and fair view" in accordance with the applicable financial reporting framework, the auditor's opinion on the financial statements will not include such phrases.

³ ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report."

20. If the conditions outlined in paragraph 19 are not present and the auditor is required by law or regulation to undertake the audit engagement, the auditor shall:
- (a) Evaluate the effect of the misleading nature of the financial statements on the auditor's report; and
 - (b) Include appropriate reference to this matter in the terms of the audit engagement.

Auditor's Report Prescribed by Law or Regulation

21. In some cases, law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of ISAs. In these circumstances, the auditor shall evaluate:
- (a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,
 - (b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.⁴

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 required by law or regulation to do so. An audit conducted in accordance with such law or regulation does not comply with ISAs. Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with ISAs.⁵ (Ref: Para. A35-A36)

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 1)

- A1. Assurance engagements, **which include audit engagements**, may only be accepted when the practitioner considers that relevant ethical requirements such as independence and professional competence will be satisfied, and when the engagement exhibits certain characteristics.⁶ The auditor's responsibilities in respect of ethical requirements in the context of the acceptance of an audit engagement and in so far as they are within the control of the auditor are dealt with in ISA 220 (Redrafted).⁷ This ISA deals with those matters (or preconditions) that are within the control of the entity and upon which it is necessary for the auditor and the entity's management to agree.

⁴ ISA 706 (Revised and Redrafted), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report."

⁵ See also ISA 700 (Redrafted), "Forming an Opinion and Reporting on Financial Statements," paragraph 43.

⁶ "International Framework for Assurance Engagements," paragraph 17.

⁷ ISA 220 (Redrafted), paragraphs 9-11.

Preconditions for an Audit

The Financial Reporting Framework (Ref: Para. 6(a))

- A2. 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.⁸ Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Suitable criteria enable 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 audit the financial statements, including where relevant their fair presentation.
- A3. Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the auditor does not have suitable criteria for auditing the financial statements. In many cases the auditor may presume that the applicable financial reporting framework is acceptable, as described in paragraphs A8-A9.

Determining the Acceptability of the Financial Reporting Framework

- A4. Factors that are relevant to the auditor's determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements 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 law or regulation prescribes the applicable financial reporting framework.
- A5. 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 in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users are referred to as general purpose financial statements.
- A6. In some cases, the financial statements will be prepared 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. ISA 800 (Revised and Redrafted) discusses the

⁸ "International Framework for Assurance Engagements," paragraph 17(b)(ii).

acceptability of financial reporting frameworks designed to meet the financial information needs of specific users.⁹

- A7. 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 19 and 20 apply. When use of that framework is not prescribed by law or regulation, management may decide to adopt another framework that is acceptable. When management does so, as required by paragraph 16, new terms of the audit engagement are agreed to reflect the change in the framework as the previously agreed terms will no longer be accurate.

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 or recognized to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared 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, provided the organization follows an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.

These financial reporting standards are often identified as the applicable financial reporting framework in law or regulation governing the preparation of general purpose financial statements.

Financial reporting frameworks prescribed by law or regulation

- A9. In accordance with paragraph 6(a), the auditor is required to determine whether the financial reporting framework, to be applied in the preparation of the financial statements, is acceptable. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used in the preparation 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 by

⁹ ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks,” paragraph 8.

such entities. In the event that the framework is not considered to be acceptable, paragraphs 19 and 20 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, management identifies ~~an applicable~~ financial reporting framework to be applied in the preparation of the financial statements. Appendix 2 contains guidance on determining the acceptability of financial reporting frameworks in such circumstances.

Agreement of the Responsibilities of Management (Ref: Para. 6(b))

- A11. An audit in accordance with ISAs is conducted on the premise that management has acknowledged and understands that it has the responsibilities set out in paragraph 6(b).¹⁰ In certain jurisdictions, ~~the such~~ responsibilities ~~of management for the financial statements and for related internal control~~ may be specified in law or regulation. In others, there may be little or no legal or regulatory definition of such responsibilities. ISAs do not override law or regulation in such matters. However, the concept of an independent audit requires that the auditor's role does not involve the preparation of the financial statements or taking responsibility for the entity's related internal control, and that the auditor has a reasonable expectation of obtaining the information necessary for the audit in so far as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit. To avoid misunderstanding, agreement is reached with management that it acknowledges and understands ~~its~~ that it has such responsibilities as part of agreeing and recording the terms of the audit engagement in paragraphs 9-12.

- A12. The way in which the responsibilities ~~in the premise for financial reporting~~ are divided between management and those charged with governance will vary according to the resources and structure of the entity and any relevant law or regulation, and the respective roles of management and those charged with governance within the entity. In most cases, management is responsible for execution while those charged with governance have oversight of management. In some cases, those charged with governance will have, or will assume, responsibility for approving the financial statements or monitoring the entity's internal control related to financial reporting. In larger or public entities, a subgroup of those charged with governance, such as an audit committee, may be charged with certain oversight responsibilities.

- A13. ISA 580 (Revised and Redrafted) requires the auditor to request management to provide written representations that it has fulfilled certain of its responsibilities.¹¹ It may therefore be appropriate to make management aware that receipt of such written representations will be expected, together with written representations required by other ISAs and, where necessary,

¹⁰ ISA 200 (Revised and Redrafted), paragraph A2.

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

written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements.

- A14. Where management will not acknowledge its responsibilities, or agree to provide the written representations, the auditor will be unable to obtain sufficient appropriate audit evidence.¹² In such circumstances, it would not be appropriate for the auditor to accept the audit engagement, unless law or regulation requires the auditor to do so. In cases where the auditor is required to accept the audit engagement, the auditor may need to explain to management the importance of these matters, and the implications for the auditor's report.

Preparation of the Financial Statements (Ref: Para 6(b)(i))

- A15. Most financial reporting frameworks include requirements relating to the presentation of the financial statements; for such frameworks, *preparation* of the financial statements in accordance with the financial reporting framework includes *presentation*. In the case of a fair presentation framework the importance of the reporting objective of fair presentation is such that the premise agreed with management includes specific reference to fair presentation, or to the responsibility to ensure that the financial statements will "give a true and fair view" in accordance with the financial reporting framework.

Internal Control (Ref: Para. 6(b)(ii))

- A16. Management maintains internal control in order to prepare financial statements in accordance with the applicable financial reporting framework. An independent audit conducted in accordance with the ISAs does not act as a substitute for the maintenance of internal control necessary for the preparation of financial statements by management. Accordingly, the auditor is required to obtain the agreement of management that it acknowledges and understands ~~its~~ that it has responsibility for such internal control as management determines is necessary for this purpose.
- A17. It is for management to determine what internal control is necessary for the preparation of the financial statements. The term "internal control" encompasses a wide range of activities within components that may be described as the control environment; the entity's risk assessment process; the information system, including the related business processes relevant to financial reporting, and communication; control activities; and monitoring of controls. This division, however, does not necessarily reflect how a particular entity may design, implement and maintain its internal control, or how it may classify any particular component.¹³ An entity's internal control (in particular, its accounting books and records, or accounting systems) will reflect the needs of management, the complexity of the business, the nature of the risks to which the entity is subject, and relevant laws or regulation.
- A18. In some jurisdictions, law or regulation may refer to the responsibility of management for the adequacy of accounting books and records, or accounting systems. In some cases, general practice may assume a distinction between accounting books and records or accounting

¹² ISA 580 (Revised and Redrafted), paragraph A28.

¹³ ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment," paragraph A47 and Appendix I.

systems on the one hand, and internal control or controls on the other. As accounting books and records, or accounting systems, are an integral part of internal control as referred to in paragraph A17, no specific reference is made to them in paragraph 6(b)(ii) for the description of the responsibility of management. To avoid misunderstanding, it may be appropriate for the auditor to explain to management the scope of this responsibility.

~~A18. The agreement required by paragraph 6(b)(ii) does not imply that the auditor will find that the internal control maintained by management has achieved its purpose or will be free of deficiencies.~~

Considerations Relevant to Smaller Entities (Ref: Para. 6(b))

A19. One of the purposes of agreeing the terms of the audit engagement is to avoid misunderstanding about the respective responsibilities of management and the auditor. For example, when a third party has assisted with the preparation of the financial statements, it may be useful to remind management that the preparation of the financial statements in accordance with the applicable financial reporting framework remains its responsibility.

Agreement on Audit Engagement Terms

Agreeing the Terms of the Audit Engagement (Ref: Para. 9)

A20. The roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance structure of the entity and relevant law or regulation. Ordinarily, the agreement is with those charged with governance.

*Audit Engagement Letter or Other Form of Written Agreement*¹⁴ (Ref: Para. 10-11)

A21. It is in the interests of both the entity and the auditor that the auditor sends an audit engagement letter before the commencement of the audit to help avoid misunderstandings with respect to the audit. In some countries, however, the objective and scope of an audit and the responsibilities of management and of the auditor may be sufficiently established by law, that is, they prescribe the matters described in paragraph 10. Although in these circumstances paragraph 11 permits the auditor to include in the engagement letter only the agreement of management that it acknowledges and understands ~~its that it has the~~ responsibilities ~~as~~ set out in paragraph 6(b), the auditor may nevertheless consider it appropriate to include the matters described in paragraph 10 and reference to the relevant law or regulation in an engagement letter for the information of management.

Form and Content of the Audit Engagement Letter (Ref: Para. 10)

A22. The form and content of the audit engagement letter may vary for each entity. Information included in the audit engagement letter on the auditor's responsibilities may be based on ISA 200 (Revised and Redrafted).¹⁵ Paragraphs 6(b), and 12 of this ISA deal with the description

¹⁴ 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.

¹⁵ ISA 200 (Revised and Redrafted), paragraphs 3-9.

of the responsibilities of management. In addition to including the matters required by paragraph 10, 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 inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs.
- Arrangements regarding the planning and performance of the audit, including the composition of the audit team.
- The expectation that management will provide written representations (see also paragraph A13).
- The agreement of management 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 agreement of management to inform the auditor of facts that may affect the financial statements, of which management may become aware during the period from the date of the auditor's report to the date the financial statements are issued.
- The basis on which fees are computed and any billing arrangements.
- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.

A23. 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.
- 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.
- Any obligations to provide audit working papers to other parties.

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

Audits of Components (Ref: Para. 10)

A24. When the auditor of a parent entity is also the auditor of a 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 component auditor;
- Whether a separate auditor's report is to be issued on the component;
- Legal requirements in relation to audit appointments;
- Degree of ownership by parent; and
- Degree of independence of the component management **from the parent entity**.

Responsibilities of Management Prescribed by Law or Regulation (Ref: Para. 11-12)

A25. If, in the circumstances described in paragraphs A21 and A26, the auditor concludes that it is not necessary to record certain terms of the audit engagement in an audit engagement letter, the auditor is still required by paragraph 11 to seek the written agreement from management that it acknowledges and understands ~~its~~ **that it has the** responsibilities set out in paragraph 6(b). However, in accordance with paragraph 12, such written agreement may use the wording of the law or regulation if such law or regulation establishes responsibilities for management that are equivalent in effect to those described in paragraph 6(b). The accounting profession or national standard setter in a jurisdiction may consider it appropriate to provide guidance as to whether the description in law or regulation is equivalent.

Considerations specific to public sector entities

A26. Law 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 an audit engagement letter. When law or regulation does not prescribe in sufficient detail the terms of the audit engagement, a letter setting out those elements of paragraph 10 not sufficiently covered by law or regulation, in addition to seeking the agreement of management that it acknowledges and understands its responsibilities as set out in paragraph 6(b)), would satisfy this requirement. If the preconditions of an audit are not present, the public sector auditor may still be required to accept the audit engagement, as provided by paragraph 8, due to the requirements of law or regulation.

Recurring Audits (Ref: Para. 13)

A27. The auditor may decide not to send a new audit engagement letter or other written 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.
- 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 the preparation of the 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. 14)

- A28. A request from the entity for the auditor to change the terms of 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 management or caused by other circumstances. The auditor, as required by paragraph 14, considers the justification given for the request, particularly the implications of a restriction on the scope of the audit engagement.
- A29. 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.
- A30. 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 opinion or a disclaimer of opinion.

Request to Change to a Review or a Related Service (Ref: Para. 15)

- A31. 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 ISAs may need to assess, in addition to the matters referred to in paragraphs A28-A30 above, any legal or contractual implications of the change.
- A32. 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

Financial Reporting Standards Supplemented by Law or Regulation (Ref: Para. 18)

A33. In some jurisdictions, law or regulation may supplement the financial reporting standards established by an authorized or recognized standards setting organization with additional requirements relating to the preparation of financial statements. In those jurisdictions, the applicable financial reporting framework for the purposes of applying the ISAs encompasses both the identified financial reporting framework and such additional requirements provided they do not conflict with the identified financial reporting framework. This may, for example, be the case when law or regulation prescribes 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.¹⁶

Financial Reporting Framework Prescribed by Law or Regulation—Other Matters Affecting Acceptance (Ref: Para. 19)

A34. Law or regulation may prescribe that the wording of the auditor's opinion use the phrases "present fairly, in all material respects" or "give a true and fair view" in a case where the auditor concludes that the applicable financial reporting framework prescribed by law or regulation would otherwise have been unacceptable. In this case, the terms of the prescribed wording of the auditor's report are significantly different from the requirements of ISAs (see paragraph 21).

Auditor's Report Prescribed by Law or Regulation (Ref: Para. 21)

A35. ISAs require that the auditor shall not represent compliance with ISAs unless the auditor has complied with all of the ISAs relevant to the audit.¹⁷ When law or regulation prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of 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 ISAs. The auditor is, however, encouraged to apply ISAs, including the ISAs that address the auditor's report, to the extent practicable, notwithstanding that the auditor is not permitted to refer to the audit being conducted in accordance with ISAs.

Considerations Specific to Public Sector Entities

A36. 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.

¹⁶ ISA 700 (Redrafted), paragraph 15, includes a requirement regarding the evaluation of whether the financial statements adequately refer to or describe the applicable financial reporting framework.

¹⁷ ISA 200 (Revised and Redrafted), paragraph 20.

Appendix 1

(Ref: Paras. A22-23)

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 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 13 of this ISA). It may be appropriate to seek legal advice that any proposed letter is suitable.

To the appropriate representative of ~~senior management~~ those charged with governance of ABC Company.¹⁸

[The objective and scope of the audit]

You¹⁹ have requested that we audit the financial statements of ~~.....~~ ABC Company, 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 information. 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 (ISAs). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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.

¹⁸ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see paragraph A20.

¹⁹ Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "auditor" would be used or amended as appropriate in the circumstances.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs.

In making our risk assessments, we consider internal control relevant to the entity's preparation 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 will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

[The responsibilities of management and identification of the applicable financial reporting framework (for purposes of this example it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 6(b) of this ISA are therefore used).]

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance]²⁰ acknowledge and understand ~~s-its that they have~~ responsibility:

- (a) For the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, ~~including their fair presentation~~,²¹
- (b) For such internal control as [management] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, ~~in support to its responsibility under (a) above~~; and
- (c) To provide us with:
 - (i) Access to all information of which [management] is aware that is relevant to the preparation of the financial statements such as records, ~~and~~ documentation and other matters;
 - (ii) Additional information ~~for the purpose of the audit~~ that we may request from [management ~~and, where appropriate, those charged with governance~~] for the purpose of the audit; and
 - (iii) Unrestricted access to persons 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.

²⁰ Use terminology as appropriate in the circumstances.

²¹ Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards."

[*Other relevant information*]

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

[Reporting]

[*Insert appropriate reference to the expected form and content of the auditor's report ~~text of sample report or include as an attachment.~~*]

The form and content of our report may need to be amended in the light of our audit findings.

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, management ~~and, where appropriate, 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 6(a) of this ISA 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 purpose~~ 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 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.

CONFORMING AMENDMENTS TO OTHER ISAs

[Note: Changes agreed by the IAASB on September 18 are highlighted in yellow. Subsequent changes, other than editorial changes, are highlighted in green.]

ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing”

[No amendments are proposed to paragraphs 1-3.]

4. The financial statements subject to audit are those of the entity, prepared ~~and presented~~ by management of the entity with oversight from those charged with governance. ISAs do not impose responsibilities on management or those charged with governance and do not override laws and regulations that govern their responsibilities. However, an audit in accordance with ISAs is conducted on the premise that management and, where appropriate, those charged with governance have **acknowledged certain** responsibilities that are fundamental to the conduct of the audit. The audit of the financial statements does not relieve management or those charged with governance of their ~~those~~ responsibilities. (Ref: Para. A2-A11)

[No amendments are proposed to paragraphs 5-12.]

Definitions

13. For purposes of the ISAs, the following terms have the meanings attributed below ...
 - (j) Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted – That management and, where appropriate, those charged with governance **have acknowledged and understand that they** have the following responsibilities that are fundamental to the conduct of an audit in accordance with ISAs. That is, responsibility:
 - (i) For the preparation ~~and presentation~~ of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatements, whether due to fraud or error;
 - (ii) For such internal control as management and, where appropriate, those charged with governance, determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - (iii) To provide the auditor with:
 - a. Access to all information, such as records and documentation, and other matters of which management and, where appropriate, those charged with governance are aware that is are relevant to the preparation and presentation of the financial statements such as records, documentation and other matters;

- b. ~~Any~~ Additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose of the audit; and
- c. Unrestricted access to persons ~~those~~ within the entity from whom the auditor determines it necessary to obtain audit evidence.

In the case of a fair presentation framework under which management and, where appropriate, those charged with governance, the have a responsibility is for the preparation and fair presentation of financial statements in accordance with the financial reporting framework; or to prepare financial statements that give a true and fair view, the relevant part of the premise may be stated as being responsible “for the preparation of financial statements that give a true and fair view in accordance with the applicable financial reporting framework.” This applies to all references to ~~“preparation and presentation of the financial statements”~~ in the ISAs.

The “premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted” may also be referred to as the “premise.”

[No amendments are proposed to paragraphs 14-24 and A1.]

Preparation of the Financial Statements (Ref: Para.4)

- A2. Law or regulation may establish the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting. However, the extent of these responsibilities, or the way in which they are described, may differ across jurisdictions. Despite these differences, an audit in accordance with ISAs is conducted on the premise that management and, where appropriate, those charged with governance have acknowledged and understand that they have responsibility:
- (a) For the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatements, whether due to fraud or error;
 - (b) For such internal control as management and, where appropriate, those charged with governance, determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - (c) To provide the auditor with:
 - (i) Access to all information, such as records and documentation, and other matters of which management and, where appropriate, those charged with governance are aware that is are relevant to the preparation and presentation of the financial statements such as records, documentation and other matters;
 - (ii) ~~Any~~ Additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose of the audit; and

(iii) **Unrestricted** access to persons ~~those~~ within the entity from whom the auditor determines it necessary to obtain audit evidence.

A3. ~~As part of their responsibility for~~ ~~the~~ preparation **and presentation** of the financial statements; ~~by~~ management and, where appropriate, those charged with governance **requires** **are responsible for**:

- The identification of the applicable financial reporting framework, in the context of any relevant laws or regulations.
- The preparation **and presentation** of the financial statements in accordance with that framework.
- **The inclusion of An** adequate description of that framework in the financial statements.

[No amendments are proposed to paragraphs A4-A9.]

A10. Because of the significance of the premise to the conduct of an audit, the auditor is required to obtain **the agreement of from** management and, where appropriate, those charged with governance that they acknowledge and understand **that they have their** responsibilities set out in paragraph A2 as a precondition for accepting the audit engagement.¹ ~~The auditor is also required to obtain written representations about whether management and, where appropriate, those charged with governance have fulfilled those responsibilities.²~~

[No amendments are proposed to paragraphs A11-A76.]

¹ ~~Proposed~~ ISA 210 (Redrafted), paragraph ~~46(b)~~.

² ~~ISA 580 (Revised and Redrafted), "Written Representations," paragraphs 10-11.~~

ISA 580 (Revised and Redrafted), “Written Representations”

[No amendments are proposed to paragraphs 1-5.]

Objectives

6. The objectives of the auditor are:

- (a) To obtain written representations from management **and, where appropriate, those charged with governance** that ~~they~~ management believes that ~~they have~~ it has fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor ~~the fundamental responsibilities that constitute the premise on which an audit is conducted;~~ (Ref: Para. A2-A3)
- (b) To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations if determined necessary by the auditor or required by other ISAs; and
- (c) To respond appropriately to written representations provided by management **and, where appropriate, those charged with governance,** or if management **or, where appropriate, those charged with governance does** not provide the written representations requested by the auditor.

[No amendments are proposed to paragraph 7.]

Definitions

8. For purposes of this ISA, references to “management” should be read as “management and, where appropriate, those charged with governance.” Furthermore, in the case of a fair presentation framework, management is responsible for the preparation **and fair presentation** of the financial statements in accordance with the **applicable** financial reporting framework, **including their fair presentation**; or the preparation of financial statements *that give a true and fair view* in accordance with the **applicable** financial reporting framework.

[No amendments are proposed to paragraphs 9.]

Written Representations about Management’s Responsibilities*Preparation ~~and Presentation~~ of the Financial Statements*

10. The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation ~~and presentation~~ of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement.³ ~~and, in particular, whether the financial statements are prepared and presented in accordance with the applicable financial reporting framework.~~ (Ref: Para. A9-A11, A16, A24)

[No amendments are proposed to paragraphs 11-12. They are included for information only.]

³ ~~{Proposed}~~ ISA 210, “Agreeing the Terms of Audit Engagements,” paragraph ~~{46}~~(b)(i).

Information Provided to the Auditor

11. The auditor shall request management to provide a written representation that it has provided the auditor with all relevant information agreed in the terms of the audit engagement,⁴ and that all transactions have been recorded and are reflected in the financial statements. (Ref: Para. A9-A11, A16, A24)

Description of Management's Responsibilities in the Written Representations

12. Management's responsibilities shall be described in the written representations required by paragraphs 10 and 11 in the manner in which these responsibilities are described in the terms of the audit engagement. (Ref: Para. A3)

[No amendments are proposed to paragraphs 13-20 and A1.]

~~Premise, relating to Management's Responsibilities, on which an Audit is Conducted~~ (Ref: Para. 6(a), 12)

~~A2. Law or regulation may establish management's responsibilities in relation to financial reporting. However, the extent of these responsibilities, or the way in which they are described, may differ across jurisdictions. Despite these differences, an audit in accordance with ISAs is conducted on the premise that management has responsibility:~~

- ~~(a) For the preparation and presentation 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~~
- ~~(b) To provide the auditor with:~~
 - ~~(i) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;~~
 - ~~(ii) Any additional information that the auditor may request from management; and~~
 - ~~(iii) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.⁵~~

~~A3. [Proposed] ISA 210 (Redrafted) requires the auditor to obtain the agreement of management that it acknowledges and understands those responsibilities as a precondition for accepting the audit engagement.⁶ If management's responsibilities prescribed by law or regulation are equivalent in effect to those described in paragraph A2, the auditor may use the wording of the law or regulation to describe them in the terms of the audit engagement.⁷~~

[No amendments are proposed to paragraphs A4-A8.]

⁴ ~~[Proposed] ISA 210, paragraph 46(b)(ii).~~

⁵ ~~[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.~~

⁶ ~~[Proposed] ISA 210 (Redrafted), paragraph 4(b).~~

⁷ ~~[Proposed] ISA 210 (Redrafted), paragraph 11.~~

Written Representations about Management's Responsibilities (Ref: Para. 10-11)

A9. Audit evidence obtained during the audit that management has fulfilled ~~is fulfilling~~ the responsibilities referred to in paragraphs 10 and 11 ~~that it agreed to in the terms of the audit engagement~~ is not sufficient without obtaining confirmation from management that it believes that it has fulfilled those responsibilities. This is because the auditor is not able to judge solely on other audit evidence whether management has prepared ~~and presented~~ the financial statements and provided information to the auditor on the basis of the agreed acknowledgement and understanding of its responsibilities. For example, the auditor could not conclude that management has provided the auditor with all relevant ~~the~~ information agreed in the terms of the audit engagement described in paragraph A2(b) ~~without asking it whether, and receiving confirmation that, such information has been provided.~~

[No amendments are proposed to paragraphs A10-A20.]

Form of Written Representations (Ref: Para. 15)

A21. Written representations are required to be included in a representation letter addressed to the auditor. In some jurisdictions, however, management may be required by law or regulation to make a written public statement about its responsibilities. Although such statement is a representation to the users of the financial statements, or to relevant authorities, the auditor may determine that it is an appropriate form of written representation in respect of some or all of the representations required by paragraph 10 or 11. Consequently, the relevant matters covered by such statement need not be included in the representation letter. Factors that may affect the auditor's determination include:

- Whether the statement includes confirmation of the fulfillment of the responsibilities referred to in paragraphs 10 and 11 ~~that are equivalent to some or all of those set out in the terms of the audit engagement.~~
- Whether the statement has been given or approved by those from whom the auditor requests the relevant written representations.
- Whether a copy of the statement is provided to the auditor as near as practicable to, but not after, the date of the auditor's report on the financial statements (see paragraph 14).

[No amendments are proposed to paragraphs A22-A27.]

Written Representations about Management's Responsibilities (Ref: Para. 20)

A28. As explained in paragraph A9, the auditor is not able to judge solely on other audit evidence whether management has fulfilled the responsibilities referred to in paragraphs 10 and 11 ~~prepared and presented the financial statements and provided information to the auditor on the basis of the agreed acknowledgement and understanding of its responsibilities.~~ Therefore, if, as described in paragraph 20(a), the auditor concludes that the written representations about these matters are unreliable, or if management does not provide those written representations, the auditor is unable to obtain sufficient appropriate audit evidence. The possible effects on the financial statements of such inability are not confined to specific elements, accounts or items of the financial statements and are hence pervasive. [Proposed]

ISA 705 (Revised and Redrafted) requires the auditor to disclaim an opinion on the financial statements in such circumstances.⁸

[No amendments are proposed to paragraph A29 and Appendix 1.]

⁸ [Proposed] ISA 705 (Revised and Redrafted), paragraph [12].

Appendix 2

(Ref: Para. A23)

Illustrative Representation Letter

The following illustrative letter includes written representations that are required by this and other ISAs in effect as at December 15 31, 2009 2007. It is assumed in this illustration that the applicable financial reporting framework is International Financial Reporting Standards; the requirement of ISA 570 (Redrafted)⁹ to obtain a written representation is not relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial statements of ABC Company for the year ended December 31, 20XX¹⁰ for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, (or *give a true and fair view*) in accordance with International Financial Reporting Standards.

We confirm that (*to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves*):

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation and presentation of the financial statements in accordance with International Financial Reporting Standards; as set out in the terms of the audit engagement dated [insert date] and in particular, the financial statements are fairly presented (or *give a true and fair view*) in accordance therewith International Financial Reporting Standards.

...

Information Provided

- We have provided you with:
 - Access to all information of which we are aware, such as records and documentation, and other matters that is are relevant to the preparation and presentation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and

⁹ ISA 570 (Redrafted), "Going Concern." [See footnote 15.]

¹⁰ Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.

- o Unrestricted access to persons ~~those~~ within the entity from whom you determined it necessary to obtain audit evidence.

...

[No other amendments are proposed to Appendix 2.]

Proposed-ISA 700 (Redrafted), Forming an Opinion and Reporting on Financial Statements”

[No amendments are proposed to paragraphs 1-26. Paragraphs 24-25 are included for information only.]

Management’s Responsibility for the Financial Statements

24. This section of the auditor’s report describes the responsibilities of those in the organization that are responsible for the preparation of the financial statements. The auditor’s report need not refer specifically to “management,” but shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction. In some jurisdictions, the appropriate reference may be to those charged with governance.
25. The auditor’s report shall include a section with the heading “Management’s [or other appropriate term] Responsibility for the Financial Statements.”
26. The auditor’s report shall describe management’s responsibility for the preparation of the financial statements **in the manner in which that responsibility is described in the terms of the audit engagement.** The description shall include an explanation that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework, **and for such internal control as it determines is necessary;** ~~this responsibility includes the design, implementation and maintenance of internal control relevant to enable~~ the preparation of financial statements that are free from material misstatement, whether due to fraud or error. (Ref: Para. A20- A22)
27. Where the financial statements are prepared in accordance with a fair presentation framework, the explanation of management’s responsibility for the financial statements in the auditor’s report shall refer to “the preparation and fair presentation of these financial statements” or “the preparation of financial statements that give a true and fair view,” as appropriate in the circumstances.

[No amendments are proposed to paragraphs 28-AA4.]

Description of the Applicable Financial Reporting Framework (Ref: Para. 15)

- A5. As explained in ISA 200 (Revised and Redrafted), **the preparation of the financial statements by** management and, where appropriate, those charged with governance **requires the inclusion of** ~~have responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework and for~~ an adequate description of **that the applicable financial reporting** framework in the financial statements.¹¹ That description is important because it advises users of the financial statements of the framework on which the financial statements are based.

[No amendments are proposed to paragraphs A6 – A19.]

¹¹ ISA 200 (Revised and Redrafted), paragraphs A2-A3.

Management's Responsibility for the Financial Statements (Ref: Para. 26)

- A20. ISA 200 (Revised and Redrafted) explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with ISAs is conducted.¹² Management and, where appropriate, those charged with governance **accept responsibility are responsible** for the preparation of the financial statements in accordance with the applicable financial reporting framework, **including where relevant their fair presentation.** **For example, in the case of many general purpose frameworks, management is responsible for the preparation of financial statements that fairly present the financial position, financial performance and cash flows of the entity in accordance with those frameworks.** **This Management also accepts** responsibility ~~includes the design, implementation and maintenance of~~ **for such** internal control ~~relevant as it determines is necessary to enable~~ the preparation of financial statements that are free from material misstatement, whether due to fraud or error. ~~In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in ISA 315 (Redrafted))¹³ no specific reference is made to them in paragraph 26 for the description of management's responsibilities.~~ **[MOVED TO PARAGRAPH A22a BELOW.]** **The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted.**
- A21. There may be circumstances when it is appropriate for the auditor to add to the description of management's responsibility in paragraph 26 to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of the particular jurisdiction or the nature of the entity.
- A22. **Paragraph 26 is consistent with the form in which the responsibilities are agreed in the engagement letter or other suitable form of written agreement, as required by ISA 210 (Redrafted).**¹⁴ ISA 210 (Redrafted) **provides some flexibility by explaining** ~~explains~~ that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that, **in the auditor's judgment,** are equivalent in effect to those set out in ISA 210 (Redrafted). For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the engagement letter or other suitable form of written agreement. **In such cases, this wording may also be used in the auditor's report to describe management's responsibilities as required by paragraph 26.** **In other circumstances, including where the auditor decides not to use the wording of law or regulation as incorporated in the engagement letter, the wording of paragraph 26 is used.** ~~For those that are not prescribed by law or regulation such that their effect is equivalent, the engagement letter or other suitable form of written agreement~~

¹² ISA 200 (Revised and Redrafted), paragraph 13(j).

¹³ ~~ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatements Through Understanding the Entity and Its Environment," paragraph 4(e).~~

¹⁴ **ISA 210 (Redrafted), paragraphs 6(b)(i) and (ii).**

reflects the description in ISA 210 (Redrafted).¹⁵

A22a. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in ISA 315 (Redrafted)¹⁶), the descriptions in ISA 210 (Redrafted) and in paragraph 26 do not make specific reference to them.

[No amendments are proposed to paragraphs A23-A25.]

Auditor's Opinion (Ref: Para. 35-37)

Wording of the auditor's opinion prescribed by law or regulation

A26. ISA 210 (Redrafted) explains that, in some cases, law or regulation of the relevant jurisdiction prescribes the wording of the auditor's report (which in particular includes the auditor's opinion) in terms that are significantly different from the requirements of ISAs. In these circumstances, ISA 210 (Redrafted) requires the auditor to evaluate:

- (a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,
- (b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, ISA 210 (Redrafted) requires the auditor not to accept the audit engagement, unless required by law or regulation to do so. In accordance with ISA 210 (Redrafted), an audit conducted in accordance with such law or regulation does not comply with ISAs. Accordingly, the auditor does not include any reference in the auditor's report to the audit having been conducted in accordance with International Standards on Auditing.¹⁷

[No amendments are proposed to paragraphs A27-A54.]

¹⁵ [ISA 210 (Redrafted), paragraph [to be inserted].]

¹⁶ ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatements Through Understanding the Entity and Its Environment," paragraph 4(c).

¹⁷ [ISA 210 (Redrafted), paragraph [to be inserted].] 21.

Appendix

(Ref: Para. A16)

Illustrations of Auditors' Reports on Financial Statements

- Illustration 1: An auditor's report on financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (e.g., International Financial Reporting Standards).
- Illustration 2: An auditor's report on financial statements prepared in accordance with a compliance framework designed to meet the common financial information needs of a wide range of users.
- Illustration 3: An auditor's report on consolidated financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (e.g., International Financial Reporting Standards).

Illustration 1:

Circumstances include the following:

- **Audit of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose by management of the entity in accordance with International Financial Reporting Standards.**
- **The terms of the audit engagement reflect description of management's responsibility for the financial statements in ISA 210 (Redrafted).**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements¹⁸

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, 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 information.

Management's¹⁹ Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in

¹⁸ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

¹⁹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

accordance with International Financial Reporting Standards;²⁰ ~~this includes the design, implementation and maintenance of~~ and for such internal control relevant as management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted 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 about 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. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation²¹ 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.²² 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, *(or give a true and fair view of)* the financial position of ABC Company as at December 31, 20X1, and *(of)* its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

²⁰ Depending on the circumstances, Where management's responsibility is to prepare financial statements that give a true and fair view, this sentence may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

²¹ Depending on the circumstances, this sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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."

²² In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers 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." In the case of footnote 28, this sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

[Illustrations 2 and 3 are not reproduced here. The description of management's responsibility for the financial statements and relevant footnotes in those illustrations will be amended as set out in the description of that responsibility and relevant footnotes in Illustration 1.]

In addition, illustrative examples of auditors' reports in other ISAs will be amended accordingly.]

Additional Conforming Amendments

ISA 240 (Redrafted), “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”

39. The auditor shall obtain written representations from management and, where applicable, those charged with governance that:
- (a) They ~~It~~ acknowledges their ~~its~~ responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;
 - (b) They have ~~It has~~ disclosed to the auditor the results of management’s ~~its~~ assessment of the risk that the financial statements may be materially misstated as a result of fraud;
 - (c) They have ~~It has~~ disclosed to the auditor their ~~its~~ knowledge of fraud or suspected fraud affecting the entity involving:
 - (i) Management;
 - (ii) Employees who have significant roles in internal control; or
 - (iii) Others where the fraud could have a material effect on the financial statements; and
 - (d) They have ~~It has~~ disclosed to the auditor their ~~its~~ knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others. (Ref: Para. A57-A58)

...

A12. Management is responsible for the ~~entity’s internal control and for the preparation of the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.~~ Accordingly, it is appropriate for the auditor to make inquiries of management regarding management’s own assessment of the risk of fraud and the controls in place to prevent and detect it. The nature, extent and frequency of management’s assessment of such risk and controls may vary from entity to entity. In some entities, management may make detailed assessments on an annual basis or as part of continuous monitoring. In other entities, management’s assessment may be less structured and less frequent. The nature, extent and frequency of management’s assessment are relevant to the auditor’s understanding of the entity’s control environment. For example, the fact that management has not made an assessment of the risk of fraud may in some circumstances be indicative of the lack of importance that management places on internal control.

...

A57. ISA 580 (Revised and Redrafted)²³ establishes requirements and provides guidance on obtaining appropriate representations from management and, where appropriate, those charged with governance in the audit. In addition to acknowledging that they have fulfilled

²³ ISA 580 (Revised and Redrafted), “Written Representations.”

their ~~its~~ responsibility for the preparation of the financial statements, it is important that, irrespective of the size of the entity, management and, where appropriate, those charged with governance acknowledge their ~~its~~ responsibility for internal control designed, implemented and maintained to prevent and detect fraud.

A58. Because of the nature of fraud and the difficulties encountered by auditors in detecting material misstatements in the financial statements resulting from fraud, it is important that the auditor obtain a written representation from management and, where appropriate, those charged with governance confirming that they have ~~it has~~ disclosed to the auditor:

- (a) The results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; and
- (b) Their ~~Its~~ knowledge of actual, suspected or alleged fraud affecting the entity.

ISA 540 (Revised and Redrafted), "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures"

22. The auditor shall obtain written representations from management and, where appropriate, those charged with governance whether they ~~management~~ believes significant assumptions used ~~by it~~ in making accounting estimates are reasonable. (Ref: Para. A126-A127)

ISA 550 (Revised and Redrafted), "Related Parties"

A16. The audit is conducted on the premise that management and, where appropriate, those charged with governance have acknowledged and understand that they have responsibility for the preparation ~~and presentation~~ of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, and for such - ~~This includes the design, implementation and maintenance of internal control as management~~ and, where appropriate, those charged with governance, determine is necessary to enable relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.²⁴ Accordingly, where the framework establishes related party requirements, management, with oversight from those charged with governance, is responsible for the design, implementation and maintenance of adequate controls over related party relationships and transactions so that these are identified and appropriately accounted for and disclosed in accordance with the framework. In their oversight role, those charged with governance are responsible for monitoring how management is discharging its responsibility for such controls. Regardless of any related party requirements the framework may establish, those charged with governance may, in order to fulfill their oversight responsibilities, obtain information from management to enable them to understand the nature and business rationale of the entity's related party relationships and transactions.

²⁴ ISA 200 (Revised and Redrafted), paragraph A2.

ISA 560 (Redrafted), “Subsequent Events”

Management Responsibility Towards Auditor (Ref: Para. 10)

A11. As explained in ISA 210 (Redrafted), ~~agreed in~~ the terms of the audit engagement, include the agreement of management ~~has a responsibility~~ to inform the auditor of ~~relevant~~ facts that may affect the financial statements, of which management ~~it may~~ becomes aware during the period from the date of the auditor’s report to the date the financial statements are issued.²⁵

ISA 570 (Redrafted), “Going Concern”

16. When events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A15)

....

- (e) Requesting written representations from management ~~and~~, where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans.

²⁵ [Proposed] ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements,” paragraph ~~A22~~A23.

[BLANK PAGE]