



**International Federation of Accountants**

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**(Revised)  
Agenda Item**

**3**

**Committee:** IAASB  
**Meeting Location:** Brussels  
**Meeting Date:** December 8-11, 2008

**Agreeing the Terms of Audit Engagements**

**Objective of Agenda Item**

1. To review the changes to proposed ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements” and related conforming amendments to other ISAs; and to approve proposed ISA 210 (Redrafted) as a final ISA.

**Task Force**

2. The members of the task force are:
  - John Kellas – IAASB Chairman
  - Ian McPhee – IAASB Member (assisted by his Technical Advisor Richard Mifsud).

**Activities since Last IAASB Discussions**

3. Although the IAASB was satisfied that significant issues had been settled at the September IAASB meeting, it decided that – given the relative significance of the changes made during the course of the meeting – the Task Force should present a revised proposed ISA 210 (Redrafted), showing only the changes agreed at, or as a consequence of, the September 18 IAASB discussion so as to allow the IAASB to ensure that its decisions had been properly reflected throughout the document.
4. In response to the above, Agenda Item 3-A shows in marked text *and highlighted in yellow* the changes agreed by the IAASB on September 18. Subsequent changes, other than editorial changes, are shown in marked text. Except for the two matters explained below, they are as a consequence of the changes agreed by the IAASB on September 18 (the consequential changes being principally to align references to responsibilities with the premise).
  - (a) Paragraph A20 explains that 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. It is proposed that paragraph A20 be expanded to clarify that, ordinarily, the terms of the audit engagement are agreed with those charged with governance.

- (b) Paragraph 26 of ISA 700 (Redrafted) requires the auditor's report to describe management's responsibilities *in the manner that they are described in the terms of the audit engagement*. The Task Force recognizes that this was included to align the description of management's responsibilities in the terms of the audit engagement, the written representations and the auditor's report. However, the Task Force is concerned that the IAASB is not be able to control how management's responsibilities are described in the terms of the audit engagement. That is because the client or the auditor, based on legal advice, may amend the engagement letter; while the end result would, it is presumed, be consistent with the requirements of ISA 210 (Redrafted), the wording may be more legalistic than desirable in an auditor's report or may vary between clients of a single audit firm. Furthermore, this requirement may lead to differences within jurisdictions; for example, Firm A may use the wording of ISA 210 (Redrafted) in the engagement letter while Firm B may use the wording of legislation (whose use is optional). The result is that the requirement may lead to less consistency in the wording of auditors' reports rather than more. It is therefore proposed that paragraph 26 of ISA 700 (Redrafted) be amended to read as follows: "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 ...~~" In addition, it is proposed that paragraph A22 of ISA 700 (Redrafted) be amended to refer to the flexibility in ISA 210 (Redrafted) with regard to the description of management's responsibilities in the terms of the audit engagement when those responsibilities are prescribed by law or regulation. In such cases, that description may also (but need not) be used in the auditor's report. This should help to encourage the consistency that was one of the primary goals of the revision of ISA 700.
5. As the conforming amendments to other ISAs are presented in marked text, changes to the conforming amendments to ISAs 200 (Revised and Redrafted), 580 (Revised and Redrafted) and 700 (Redrafted) based on the September 18 IAASB discussion are highlighted in yellow. Subsequent changes are highlighted in green. Paragraphs in ISAs 200 (Revised and Redrafted), 580 (Revised and Redrafted) and 700 (Redrafted) that are affected only by conforming amendments of a general nature (e.g., deleting the reference to "presentation" in the phrase "preparation and presentation") are not included in the conforming amendments accompanying ISA 210 (Redrafted). They are processed as part of the Clarity Consistency Review.
6. A final review of the redrafted / revised and redrafted ISAs indicated the need for conforming amendments other than those to ISAs 200 (Revised and Redrafted), 580 (Revised and Redrafted) and 700 (Redrafted) as a result of ISA 210 (Redrafted). These additional conforming amendments relate to ISAs 240 (Redrafted), 540 (Revised and Redrafted), 550 (Revised and Redrafted), 560 (Redrafted) and 570 (Redrafted). They have been included in the conforming amendments that accompany ISA 210 (Redrafted). See Agenda Item 3-A.

## Material Presented

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| Agenda Item 3-A<br>(Pages 2697 to 2736) | Revised Draft of Proposed ISA 210 (Redrafted) (Mark up based on September 18, 2008 IAASB Draft) |
| Agenda Item 3-B<br>(Pages 3768 to 3791) | Revised Draft of Proposed ISA 210 (Redrafted) (Marked from Exposure Draft)                      |

## Action Requested

7. The IAASB is asked to consider the changes, and approve proposed ISA 210 (Redrafted) as a final ISA.

## Consideration of the Need to Re-expose

8. At the September 15-19, 2008 IAASB meeting, the Task Force indicated that it is of the view that the changes made to ED-ISA 210 are responsive to matters respondents have raised on exposure, and do not introduce new principles or represent other changes of substance compared with the exposure draft.<sup>1</sup> Accordingly, the Task Force is of the view that re-exposure is not necessary.<sup>2</sup>

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<sup>1</sup> See paragraph 25 of Agenda Item 8-A of the September 15-19, 2008 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4132>.

<sup>2</sup> IAASB Working Procedures regarding re-exposure state: "Situations that constitute potential grounds for a decision to re-expose may include, for example: substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the IAASB before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the IAASB; or substantial change to the substance of an International Standard or Practice Statement."

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