PROPOSED—INTERNATIONAL STANDARD ON AUDITING 210
AGREEING THE TERMS OF AUDIT ENGAGEMENTS
(Effective for audits of financial statements for periods beginning on or after December 15, 2009)

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Proposed 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.”
Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor’s responsibilities in:
   (a) agreeing the terms of the audit engagement with management, and where appropriate, those charged with governance, the entity; and This includes establishing that certain preconditions for an audit, responsibility for which rests with management, and where appropriate, those charged with governance, are present. [Proposed] ISA 220 (Redrafted)¹ deals with those aspects of engagement acceptance that are within the control of the auditor. (Ref: Para. A1) [ISSUE B]
   (b) responding to a request by an entity to change the terms of an audit engagement for an audit of financial statements. It is to be adapted as necessary in the circumstances when applied to audits of other historical financial information.

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: (Ref: Para. A1-A2)
   (a) Establishing whether the necessary 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, the entity of the terms of the audit engagement and of the respective responsibilities of the auditor, management and those charged with governance.

Definitions

4. For purposes of the ISAs, the following terms have the meanings attributed below:
   (a) References to “management” should be read as “management or those charged with governance, or both, as appropriate”. The decision as to whether to agree, discuss, or otherwise communicate a matter with management, with those charged with governance, or with both, is to be made by the auditor in the light of their respective responsibilities or roles in the entity concerned and any relevant law or regulation. Where an ISA expressly intends to refer to “management and those charged with governance” or “those charged with governance”, those terms are used. [ISSUE A]

(b) The “preconditions for an audit” are the use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management to the premise on which an audit is conducted. [ISSUE C]

Requirements

Preconditions for an Audit

45. In order to establish whether the necessary preconditions for an audit are present, the auditor shall: [ISSUE E]

(a) Determine whether the financial reporting framework to be applied in the preparation and presentation of the financial statements is acceptable; and (Ref: Para. A23-A10-A10)

(b) Obtain the agreement of management and, where appropriate, those charged with governance that it acknowledges and understands its responsibility: (Ref: Para A11-A13, A17)

(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 misstatement, whether due to fraud or error; and (Ref: Para. A14, A11-A16-A20) [ISSUE D]

(ii) To provide the auditor with:

a. Access to all information, such as records and documentation, and other matters of which management is aware that 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; and

c. Unconditional restricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

(c) Obtain the agreement of management that it acknowledges and understands its responsibility for such internal control as it determines is necessary to enable its preparation of financial statements that are free from material misstatement, whether due to fraud or error, in support of its responsibility under paragraph 5(b)(i). (Ref: Para. A11-A20)

In the case of a fair presentation framework, management and, where appropriate, those charged with governance, are responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting framework; or the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework.

Limitation on Scope Prior to Audit Engagement Acceptance

56. If management or those charged with governance imposes 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.

Reasons for not Proceeding with the Other Factors Affecting Audit Engagement Acceptance

67. If where the preconditions for an audit are not present, the auditor shall discuss the matter(s) with management, and, where appropriate, those charged with governance. Unless the requirements of paragraph 19 are met, or the auditor is required by law or regulation to do so, 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 is unacceptable, except as provided in paragraphs 18 and 19; or

(b) if the agreements referred to in paragraph 54(b) and 5(c) have not been obtained.

Agreement on Audit Engagement Terms

78. The auditor shall agree the terms of the audit engagement with management or those charged with governance. (Ref: Para. A21)

9. Subject to paragraph 10, 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. A22-A25)

8. The agreed terms of the audit engagement shall include: (Ref: Para. A22-A23)

(a) The objective and scope of the audit of the financial statements;

(b) The responsibilities of the auditor;

(c) The responsibilities of management and, where appropriate, those charged with governance (including those in paragraph 4(b));

(d) Identification of the applicable financial reporting framework for the preparation and presentation of the financial statements; and

(e) 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.
9. Subject to paragraph 10, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement. (Ref: Para. A21)

10. If law or regulation prescribes in sufficient detail the terms of the audit engagement, it may not be necessary to refer to in paragraph 9 the auditor need not record them in an audit engagement letter or other suitable form of written agreement, except for the agreement of management and, where appropriate, those charged with governance, that they acknowledge and understand their responsibilities as set out in paragraphs 45(b) and 5(c). (Ref: Para. A22, A26A4-A270)

11. If law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting for the preparation of the financial statements or for related internal control, 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 paragraphs 45(b) and 5(c). 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. For those responsibilities that are not prescribed by law or regulation, such that their effect is equivalent, the engagement letter or other suitable form of written agreement shall reflect the description in paragraphs 45(b) or 5(c). (Ref: Para. A20A26)

Recurring Audits

12. On recurring audits, the auditor shall consider 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. A24A28)

Acceptance of a Change in the Terms of the Audit Engagement

13. 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. A29-A3127)

14. If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that provides a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so. (Ref: Para. A28A32-A29A33)

15. Where 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.

16. If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted to continue the original audit engagement, the auditor shall, unless prohibited by law or regulation:

(a) Withdraw from the audit engagement where withdrawal is legally permitted; and

(b) Irrespective of whether withdrawal from the audit engagement is legally permitted, determine whether there is any obligation, either contractual or otherwise, to report the circumstances necessitating the auditor’s withdrawal from the audit engagement to
other parties, such as those charged with governance or shareholders or regulators.

Additional Considerations in Engagement Acceptance

Financial Reporting Standards Supplemented by Law or Regulation Conflicts [ISSUE F]

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 and, where appropriate, those charged with governance 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 the auditor’s report in accordance with [proposed] ISA 705 (Revised and Redrafted). 3 (Ref: Para. A34)

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

19. If the auditor has determined that the financial reporting framework prescribed by law or regulation is would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor may nevertheless agree to accept the audit engagement but shall do so only if the following conditions are present: (Ref: Para. A35-A37)

(a) Management or those charged with governance 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 [proposed] 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” or “present fairly, in all material respects”—in accordance with the applicable financial reporting framework, the auditor’s opinion on the financial statements will not include such phrases.

If management or those charged with governance refuses to provide additional disclosures and the auditor is prohibited 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

In some cases, law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor’s report in a form or opinion 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.

If the auditor concludes that additional explanation in the auditor’s report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless prohibited by law or regulation 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. (Ref: Para. A36 and A37)

Application and Other Explanatory Material

Scope of this ISA

Assurance 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. 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 [proposed] ISA 220 (Redrafted). 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. Establishing whether the necessary preconditions for an audit are

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5 See also [proposed] ISA 700 (Redrafted), “Forming an Opinion and Reporting on Financial Statements,” paragraph [43].


7 [Proposed] ISA 220 (Redrafted), paragraphs [11-12].
present and agreeing on the terms of the audit engagement are complemented by acceptance and continuance requirements in [proposed] ISA 220 (Redrafted).

A2. The responsibilities of management and those charged with governance for agreeing the terms of the audit engagement for the entity depend on the governance structure of the entity and relevant legislation.

Preconditions for an Audit

The Financial Reporting Framework (Ref: Para. 45(a))

A3A2. 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. 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 or measure the preparation and presentation of the financial statements, including where relevant their fair presentation.

A4A3. Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation and presentation 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

A5A4. Factors that are relevant may affect the auditor’s determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements. Applicable financial reporting framework 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 applicable legislative and regulatory requirements prescribe the applicable financial reporting framework.

A6A5. 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

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A wide range of users. Financial statements prepared and presented 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.

A7A6. In some cases, the financial statements will be prepared and presented 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. [Proposed] ISA 800 (Revised and Redrafted)\(^9\) discusses the acceptability of financial reporting frameworks designed to meet the financial information needs of specific users.

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 18 and 19 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, new terms of the audit engagement may need to be agreed to reflect the change in the framework as the previously agreed terms may 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 and presented 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 legislative and regulatory requirements governing the preparation and presentation of general purpose financial statements.

Financial reporting frameworks prescribed by law or regulation

A9. In accordance with paragraph 45(a), the auditor is required to determine whether the financial reporting framework, adopted to be applied in the preparation and presentation of the financial statements, is acceptable. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used in the preparation and presentation 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 and presented by such entities. (In the event that the framework is not considered to be acceptable, paragraphs 198 and 1920 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 or those charged with governance identifies an applicable financial reporting framework. Appendix 2 contains guidance on determining the acceptability of financial reporting frameworks in such circumstances.

Agreement of the Responsibilities of Management and, where appropriate, Those Charged with Governance (Ref: Para. 45(b) and 5(c))

A11. An audit in accordance with ISAs is conducted on the premise that management and, where appropriate, those charged with governance have the responsibilities set out in paragraph 45(b). In certain jurisdictions, the 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, 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 effective independent audit. To avoid misunderstanding, agreement is reached with management and, where appropriate, those charged with governance that they acknowledge and understand their responsibilities, as part of agreeing and recording the terms of the audit engagement in paragraphs 78-11. [ISSUE E]

A12. The way in which the responsibilities in the premise, and for related internal control, 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

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

A12A13. ISA 580 (Revised and Redrafted) requires the auditor to request management and, where appropriate, those charged with governance to provide written representations that they have fulfilled their responsibilities in the premise. It may therefore be appropriate to make them aware that receipt of such written representations will be expected, together with written representations required by other ISAs and, where necessary, written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements.

A13A14. Where management and, where appropriate, those charged with governance will not acknowledge its agreement to their responsibilities, or agree to provide the written representations, the auditor will be unable to obtain sufficient appropriate audit evidence. In such circumstances, it may be not be appropriate for the auditor to accept the audit engagement, unless law or regulation requires the auditor to do so. In some cases, however, law or regulation may prohibit the auditor from declining an audit engagement. In these cases, the auditor may need to explain to management and, where appropriate, those charged with governance the importance of these matters, and the implications for the auditor’s report.

Preparation of the Financial Statements (Ref: Para 5(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. 4(b)(i), 5(c))

A14A16. “Internal control” is defined as: “The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.” Internal control assists management in fulfilling its
responsibility for the preparation and presentation of the financial statements.” The entity’s objective with regard to the reliability of financial reporting includes the preparation and presentation of financial statements that are in accordance with the applicable financial reporting framework and therefore free from material misstatement, whether due to fraud or error.

A15A17. Management will be unable to prepare financial statements that are in accordance with the applicable financial reporting framework unless appropriate internal control relevant to the preparation of the financial statements is in place. Accordingly, the auditor is required to obtain the agreement of management that it acknowledges and understands its responsibility for such internal control as it determines is necessary for this purpose. Internal control is an important aspect of the responsibility of management and, where appropriate, those charged with governance for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework. Accordingly, the auditor obtains their written agreement that they acknowledge and understand that this responsibility 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. [ISSUE E]

A18. It is for management to determine the internal control 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. The completeness and sophistication of 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.

A16A19. In some jurisdictions, law or regulation may refer to the responsibility of management and, where appropriate, those charged with governance 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 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 defined in paragraphs A16 and A14, no specific reference is made to them in paragraph 4(b)5(c) for the description of the responsibility of management and, where appropriate, those charged with governance. However, if this responsibility of management and, where appropriate, those charged with governance is described using the wording of the law or regulation, as provided for in paragraph 11, it may include a reference to books, records and systems in addition to a reference to internal control. To avoid misunderstanding, it

14 ISA 315 (Redrafted), paragraph A47 and Appendix I.
may be appropriate for the auditor to explain to management and those charged with governance the scope of this responsibility.

Considerations Relevant Specific to Smaller Entities (Ref: Para. 45(b) and 5(c))

A17A20. One of the purposes of agreeing the terms of the audit engagement is to avoid misunderstanding about the respective responsibilities of management and, where appropriate, those charged with governance and the auditors. For example, when a third party has assisted with the preparation and presentation of the financial statements, it may be useful to remind management and, where appropriate, those charged with governance that the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework remains its responsibility. This may be particularly relevant in the case of smaller entities.

Agreement on Audit Engagement Terms

Agreeing the Terms of the Audit Engagement (Ref: Para. 8)

A21. The responsibilities, roles of management and those charged with governance for in agreeing the terms of the audit engagement for the entity depend on the governance structure of the entity and relevant legislation, law or regulation.

Audit Engagement Letter or Other Form of Written Agreement

A18A22. 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 avoiding misunderstandings with respect to the audit. In some countries, however, the objective and scope of an audit and the responsibilities of management and, where appropriate, those charged with governance, and of the auditor may be sufficiently established by law, that is, they prescribe the matters described in paragraph 98. Even in those situations, the auditor may still find it useful for the audit engagement letter to address these matters, in addition to seeking the agreement of management that it acknowledges and understands its responsibilities as set out in paragraphs 5(b) and 5(c) of an audit engagement letter informative for these entities.

Form and Content of the Audit Engagement Letter (Ref: Para. 89)

A223. 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 [proposed] ISA 200 (Revised and Redrafted). Paragraphs 45(b), 5(c) and 11 of this ISA deal with the description of the responsibilities of management and, where appropriate, those charged with governance. In addition to including the matters required by paragraph 5(b) and 5(c), an audit engagement letter may make reference to, for example:

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15 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.

16 [Proposed] ISA 200 (Revised and Redrafted), paragraphs [4-63-9].
• 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 test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that even some material misstatements may remain undiscovered 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 and, where appropriate, those charged with governance will provide written representations (see also paragraph A132).

• The agreement of management or those charged with governance 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 basis on which fees are computed and any billing arrangements.

• A request for management or those charged with governance to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.

A234. 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.

• The agreement of management or those charged with governance to inform the auditor of facts, that may affect the financial statements, of which management or those charged with governance may become aware during the period from the date of the auditor’s report to the date the financial statements are issued.

• 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. 9)
When the auditor of a parent entity is also the auditor of its subsidiary, branch or division (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 auditor of the component auditor;
- Whether a separate auditor’s report is to be issued on the component;
- Legal requirements in relation to audit appointments;
- The extent of any work performed by other auditors;
- Degree of ownership by parent; and
- Degree of independence of the component’s management.

Responsibilities of Management and, where Appropriate, Those Charged with Governance Prescribed by Law or Regulation (Ref: Para. 10-11)

If, in the circumstances described in paragraphs A18-A22 and A27-A19, the auditor concludes that it is not necessary to record certain the terms of the audit engagement in an audit engagement letter, the auditor is still required by paragraph 10 to obtain the written agreement from management and, where appropriate, those charged with governance that they acknowledge and understand their responsibilities set out in paragraphs 45(b) and 5(c). However, in accordance with paragraph 11, such written agreement may reflect 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 paragraphs 45(b) and 5(c). 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

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 audit engagement letters. When law or regulation does not prescribe in sufficient detail the terms of the audit engagement, a letter setting out those elements of paragraph 98 not sufficiently covered by law or regulation, in addition to seeking the agreement of management that it acknowledges and understands its responsibility, as set out in paragraphs 5(b) and 5(c) 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 7, due to the requirements of law or regulation.
Recurring Audits (Ref: Para. 12)

A24A28. 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 or those charged with governance.
- 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 and presentation 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. 13)

A25A29. 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 those charged with governance or caused by other circumstances. The auditor, as required by paragraph 13, considers the justification given for the request, particularly the implications of a restriction on the scope of the audit engagement.

A26A30. 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.

A27A31. 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 audit opinion or a disclaimer of opinion.

Request to Change to a Review or a Related Service (Ref: Para. 14)

A28A32. 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 above matters referred to in paragraphs A29-A31 above, any legal or contractual implications of the change.
A29A33. 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—Conflicts (Ref: Para. 187)

A31A34. In some jurisdictions, legislative or regulatory requirements may supplement the financial reporting standards established by an authorized or recognized standards setting organization with additional requirements relating to the preparation and presentation 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 applicable financial reporting framework. This may, for example, be the case when legislative or regulatory requirements prescribe 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.17

Financial Reporting Framework Prescribed by Law or Regulation—Determined as Unacceptable Other Matters Affecting Acceptance (Ref: Para. 47, 1918)

A32. 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 or those charged with governance may decide to adopt another framework that is acceptable. When management or those charged with governance do so, new terms of the audit engagement may need to be agreed to reflect the change in the framework as the previously agreed terms may no longer be accurate.

A33A35. 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” or “present

17 [Proposed] ISA 700 (Redrafted), paragraphs [12-15], include a requirement regarding evaluation of the applicable financial reporting framework and guidance regarding adequacy of references and descriptions.
fairly, in all material respects,” in a case where although the auditor concludes that the applicable financial reporting framework prescribed by law or regulation is would otherwise have been unacceptable. In this case, the terms of the prescribed wording of the audit opinion auditor’s report are significantly different from the requirements of ISAs (see paragraph 2017).

Auditor’s Report Prescribed by Law or Regulation

Wording Used to Express the Opinion

(Ref: Para. 2017)

A30A36. 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. 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

A34A37. 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.

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18 Proposed ISA 200 (Revised and Redrafted), paragraph [202].
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 and presented 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 12 of this ISA). It may be appropriate to seek legal advice that any proposed letter is suitable.

To the appropriate representative of senior management:

[The objective and scope of the audit]

You have requested that we audit the financial statements of ............, 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.

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that some material misstatements may remain undiscovered, even though the audit is properly planned and performed in accordance with ISAs.

19 The addressees and references in the letter to management or those charged with governance 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 A13.
In making our risk assessments, we consider 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, 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, where appropriate, those charged with governance, and identification of the applicable financial reporting framework (for purposes of this example it is assumed that the auditor has not determined whether the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraphs 4 and 5(a) of this ISA are therefore used).]

Our audit will be conducted on the basis that management and, where appropriate, those charged with governance acknowledges and understands its responsibility:

(a) For the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, including their fair presentation, this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

(b) To provide us with:

(i) Access to all information, such as records and documentation, and other matters of which management is aware that are relevant to the preparation and fair presentation of the financial statements; such as records and documentation and other matters;

(ii) Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and

(iii) Unconditional restricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

(c) For such internal control as management determines is necessary to enable its preparation of financial statements that are free from material misstatement, whether due to fraud or error, in support of its responsibility under (a) above.

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.

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

[Reporting]

We expect to report as follows:

[Insert 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
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 or those charged with governance identify 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 45(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 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

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 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 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 management1 and, where appropriate, those charged with governance, on which an audit is conducted – That management and, where appropriate, those charged with governance has 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; and

      (ii) To provide the auditor with:

          a. Access to all All information, such as records and documentation, and other matters of which management is 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; and

          c. Unrestricted Unconditional access to persons those within the entity from whom the auditor determines it necessary to obtain audit evidence.

   

1 See ISA 210, paragraph 4(a) for the use of the term ‘management’.
In the case of a fair presentation framework, where management has a responsibility for the preparation and fair presentation of the financial statements that give a true and fair view, the relevant part of the premise may be stated as being responsibility “for financial statements in accordance with the financial reporting framework; or the preparation of financial statements that give a true and fair view in accordance with the 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. An audit in accordance with ISAs is conducted on the premise that management and, where appropriate, those charged with governance has 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 misstatement, whether due to fraud or error; and

(b) To provide the auditor with:

(i) Access to all relevant information, such as records and documentation, and other matters of which management is aware that 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; and

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

Management has responsibility for such internal control as it determines is necessary to enable its preparation of financial statements that are free from material misstatement, whether due to fraud or error, in support of its responsibility under (a) above.

[No amendments are proposed to paragraphs A3-A9.]

A10. Because of the significance of the premise to the conduct of an audit, the auditor is required to obtain agreement from management and, where appropriate, those charged with governance that it acknowledges and understands its responsibilities set out in paragraph A2 as a precondition for accepting the audit engagement. The auditor is also required to obtain written representations about whether management and, where appropriate,
those charged with governance have has fulfilled those the responsibilities included in the premise.\footnote{ISA 580 (Revised and Redrafted), “Written Representations,” paragraphs 10-11.}

[No amendments are proposed to paragraphs A11-A76.]
ISA 580 (Revised and Redrafted), “Written Representations”

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor’s responsibility to obtain written representations from management and, where appropriate, those charged with governance.

[No amendments are proposed to paragraphs 2-7.]

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 financial reporting framework; or the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework.

[No amendments are proposed to paragraph 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 as set out in the terms of the audit engagement and, in particular where applicable, whether the financial statements are prepared and presented fairly presented (or, give a true and fair view) in accordance with the applicable financial reporting framework. (Ref: Para. A9-A11, A16, A24)

[No amendments are proposed to paragraphs 11-20 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, 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 misstatement, whether due to fraud or error; and

(b) To provide the auditor with:

4 [Proposed] ISA 210, “ Agreeing the Terms of Audit Engagements,” paragraph [54(b)(i)].
(i) **Access to all** All information, such as records and documentation, and other matters of which management is aware that 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

(iii) **Unrestricted** Unconditional access to those persons within the entity from whom the auditor determines it necessary to obtain audit evidence.\(^5\)

[No amendments are proposed to paragraphs A3-A29 and Appendix 1.]

### 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 31, 2007. It is assumed in this illustration that the applicable financial reporting framework is International Financial Reporting Standards; the requirement of ISA 570 (Redrafted)\(^6\) 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.

(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, 20XX\(^7\) 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 for the preparation and presentation of the financial statements 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 with International Financial Reporting Standards.

…

[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 1-23.]

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 and presentation 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 and presentation 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 and presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation and maintenance of and for such internal control relevant to as it determines is necessary to enable the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. (Ref: Para. A24- A26)

27. Where the financial statements are prepared and presented 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 in accordance with [the applicable financial reporting framework], including their fair presentation” or “the preparation and presentation of financial statements that give a true and fair view,” as appropriate in the circumstances.

[No amendments are proposed to paragraphs 28-A23.]

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

A24. ISA 200 (Revised and Redrafted) explains the premise, relating to management’s responsibilities, on which an audit in accordance with ISAs is conducted. Management is responsible for the preparation and presentation 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 and presentation of financial statements that fairly present the financial position, financial performance and cash flows of the entity in accordance with those frameworks. This To support the preparation of the financial statements, management has responsibility includes the design, implementation and maintenance of for such internal control relevant to as it determines is necessary to enable the preparation and presentation of

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8 ISA 200 (Revised and Redrafted), paragraph 4.
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))\(^9\), no specific reference is made to them in paragraph 26 for the description of management’s responsibilities.

A25. 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 and presentation of the financial statements in the context of the particular jurisdiction or the nature of the entity.

A26. [Proposed] ISA 210 (Redrafted) explains that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting for the preparation of the financial statements or for related internal control, 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 [proposed] 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. For those responsibilities that are not prescribed by law or regulation such that their effect is equivalent, the engagement letter or other suitable form of written agreement reflects uses the description in [proposed] ISA 210 (Redrafted).\(^{10}\)

[No amendments are proposed to paragraphs A27-A58.]

Appendix
(Ref: Para. A16)

Illustrations of Auditors’ Reports on Financial Statements

- Illustration 1: An auditor’s report on financial statements prepared and presented 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 and presented 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 and presented 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).


\(^{10}\) [Proposed] ISA 210 (Redrafted), paragraph [11].
Illustration 1:

Circumstances include the following:

- Audit of a complete set of financial statements.
- The financial statements are prepared for a general purpose by the management of the entity in accordance with International Financial Reporting Standards.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in [proposed] 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 Statements

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’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, including their fair presentation; this includes the design, implementation and maintenance of internal control relevant to as it 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

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11 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.

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

13 Depending on the circumstances, this sentence may read: “Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards.”

14 Where management’s responsibility is to prepare financial statements that give a true and fair view, this 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 …”
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 presentation 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. 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.

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.]

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15 Depending on the circumstances, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation 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.”

16 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 29, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”