

PROPOSED CONFORMING AMENDMENTS TO OTHER ISAs

Note: The following are proposed conforming amendments to other ISAs as a result of the Proposed ISAs. These amendments will become effective at the same time as the Proposed ISAs. The footnote numbers within these amendments do not align with the ISAs that will be amended, and reference should be made to those ISAs.

ISA 210, *Agreeing the Terms of Audit Engagements*

Agreement on Audit Engagement Terms

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. A22–A25)
- (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, including, if the auditor is not required to communicate key audit matters but intends to do so, a statement that the auditor intends to communicate key audit matters; and (Ref: Para. A23a)
 - (f) A statement that there may be circumstances in which a report may differ from its expected form and content.

Agreement on Audit Engagement Terms

*Audit Engagement Letter or Other Form of Written Agreement*¹ (Ref: Para. 10–11)

Form and Content of the Audit Engagement Letter

A23. 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 200.² Paragraphs 6(b) and 12 of this ISA deal with the description 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.

¹ 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.

² ISA 200, paragraphs 3–9

- The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with proposed ISA 701.³
- 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 engagement 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.

A23a. Referring to the expected form and content of the auditor's report in agreeing the terms of the audit engagement enables management and, where appropriate, those charged with governance to understand how the auditor may communicate about the audit, in particular in relation to key audit matters. Acknowledging that the auditor intends to communicate key audit matters in the auditor's report when not otherwise required to do so makes management and those charged with governance aware of the auditor's intent. However, the form and content of the auditor's report, including the description of key audit matters, is the sole responsibility of the auditor. When the auditor is not required to communicate key audit matters, it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.

A24. 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.

³ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

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

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

Appendix 1

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 management or those charged with governance of ABC Company:⁴

[The objective and scope of the audit]

You⁵ have requested that we audit the 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 notes to the financial statements, including 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~~ The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our expressing an opinion on the financial statements. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

⁴ 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 A21.

⁵ 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.

[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 As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the planning and performing of the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit also involves ~~We also:~~

- ~~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~~ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ~~In making our risk assessments, we~~ Obtain an understanding of ~~consider~~ internal control relevant to the ~~entity's preparation of the financial statements~~ audit 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.⁶ 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.
- ~~An audit also includes evaluating~~ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management, ~~as well as~~
- ~~evaluating~~ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

[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]⁷ acknowledge and understand that they have responsibility:

- (a) For the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards;⁸

⁶ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

⁷ Use terminology as appropriate in the circumstances.

⁸ Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards"

- (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;
- (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, documentation and other matters;
 - (ii) Additional information that we may request from [management] 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.

[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, including where applicable the intent of an auditor of financial statements of an entity other than a listed entity to communicate key audit matters if not otherwise required to do so. This section may also include reference to the auditor's required reporting responsibilities in relation to going concern, other information and key audit matters.]

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)

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Name and Title

Date

ISA 230, *Audit Documentation*

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content and Extent of Audit Documentation

Documentation of Significant Matters and Related Significant Professional Judgments (Ref: Para. 8(c))

A10. Some examples of circumstances in which, in accordance with paragraph 8, it is appropriate to prepare audit documentation relating to the use of professional judgment include, where the matters and judgments are significant:

- The rationale for the auditor's conclusion when a requirement provides that the auditor "shall consider" certain information or factors, and that consideration is significant in the context of the particular engagement.
- The basis for the auditor's conclusion on the reasonableness of areas of subjective judgments (for example, the reasonableness of significant accounting estimates).
- The basis for the auditor's conclusions about the authenticity of a document when further investigation (such as making appropriate use of an expert or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.
- When a Key Audit Matters section is included in the auditor's report in accordance with proposed ISA 701,⁹ the auditor's determination of the key audit matters, or the determination that there are no key audit matters.

ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

Further Substantive Procedures to Respond to Significant Risks (Ref: Para. 15)

Recognition and Measurement Criteria

Recognition of the Accounting Estimates in the Financial Statements (Ref: Para. 17(a))

A114. With respect to accounting estimates that have not been recognized, the focus of the auditor's evaluation is on whether the recognition criteria of the applicable financial reporting framework have in fact been met. Even where an accounting estimate has not been recognized, and the auditor concludes that this treatment is appropriate, there may be a need for disclosure of the circumstances in the notes to the financial statements. The auditor may also determine that there is a need to draw the reader's attention to a significant uncertainty by including an Emphasis of Matter paragraph (see proposed ISA 706 (Revised)¹⁰ to or, where applicable, communicating this as a key audit matter in the auditor's report in accordance with proposed ISA 701.¹¹ If the matter is determined to be a key audit matter, proposed ISA 706 (Revised) prohibits the auditor from including an Emphasis of Matter

⁹ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

¹⁰ Proposed ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

¹¹ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

~~paragraph in the auditor's report.¹² ISA 706¹³ establishes requirements and provides guidance concerning such paragraphs.~~

ISA 710, Comparative Information—Corresponding Figures and Comparative Financial Statements

Auditor Reporting

Corresponding Figures

Prior Period Financial Statements Not Audited

14. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements. (Ref: Para. A7a)

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Comparative Financial Statements

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16. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with proposed ISA 706 (Revised).

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Prior Period Financial Statements Not Audited

19. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph that the comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements. (Ref: Para. A12)

Auditor Reporting

Corresponding Figures

Prior Period Financial Statements Not Audited (Ref: Para. 14)

A7a. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor is required by proposed ISA 705 (Revised)¹⁴ to express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with proposed ISA 705 (Revised). If the auditor encountered significant difficulty in obtaining sufficient appropriate

¹² Proposed ISA 706 (Revised), paragraph 7(b)

¹³ ~~ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*~~

¹⁴ Proposed ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements, the auditor may determine this to be a key audit matter in accordance with proposed ISA 701.¹⁵

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Comparative Financial Statements

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Prior Period Financial Statements Not Audited (Ref: Para. 19)

A12. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor is required by proposed ISA 705 (Revised) to express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with proposed ISA 705 (Revised). If the auditor encountered significant difficulty in obtaining sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements, the auditor may determine this to be a key audit matter in accordance with proposed ISA 701.

¹⁵ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*