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IAASB CAG Agenda (September 2007)

Agenda Item D.3

Written Representations – Proposed Conforming Amendments to Proposed ISA 210 (Redrafted) – September 2007 IAASB Agenda Item 2-C

Proposed Conforming Amendments to Proposed ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements” (Reviewed, But Not Approved, at the July 2007 IAASB Meeting)

Preconditions for Accepting an Audit Engagement

4. In order to establish whether necessary preconditions for accepting an audit engagement are present, the auditor shall:
 - (a) Determine whether the financial reporting framework to be ~~used~~ applied in the preparation and presentation of the financial statements is acceptable; and (Ref: Para. A2-A9)
 - (b) Obtain the ~~acknowledgement and~~ agreement of management ~~and, where appropriate, those charged with governance, that they understand their responsibilities for that they acknowledge and understand their responsibility:~~
 - (i) Preparing and presenting For the preparation and presentation¹ of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation² of financial statements that are free from material misstatement, whether due to fraud or error; and
 - (ii) Designing, implementing and maintaining internal control relevant to preparing and presenting financial statements that are free from material misstatement, whether due to fraud or error; and
 - (iii) Providing complete information to To provide the auditor with all the information the auditor requires in connection with the audit of the entity. (Ref: Para. A10-A13)

4a. If law or regulation prescribes management’s responsibilities, the auditor shall determine to what extent they are similar to those set out in paragraph 4(b). For management’s responsibilities that are similar, the auditor may use the wording of the law or regulation to describe those responsibilities. For management’s responsibilities that are not similar, or that are not prescribed by law or regulation, the auditor shall use the description in paragraph 4(b). (Ref: Para. A10a-A10b)

¹ 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.

² See footnote 1.

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Reasons for not Proceeding with the Audit Engagement

6. Where the preconditions for an audit are not present, the auditor shall discuss the matter(s) with management ~~and~~ or, where appropriate, those charged with governance. Unless the requirements of paragraph 14 are met, or the auditor is required by law or regulation to do so, the auditor shall not accept the proposed audit engagement if the auditor has determined that the applicable financial reporting framework is unacceptable or if the ~~acknowledgement and~~ agreement referred to in paragraph 4(b) has not been obtained.

Agreement on Audit Engagement Terms

8. The audit engagement letter or other written agreement shall include:
 - (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~~ (see paragraph 4(b));
 - (d) Identification of the applicable financial reporting framework for the preparation and presentation of the entity's financial statements; and
 - (e) The expected form of any reports to be issued by the auditor. (Ref: Para. A17-A18)

Preconditions for an Audit (Ref: Para. 4-6)

~~Acknowledgement and Agreement of Management's Responsibilities or, where appropriate, Those Charged with Governance~~

- A10. [Proposed] ISA 200 (Revised and Redrafted), "Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing" states that ISAs are written, and audits are conducted on the premises that management ~~or, where appropriate, those charged with governance,~~ acknowledge and understand the responsibilities set out in paragraph 4(b) of this ISA. ~~These premises are~~ This premise is fundamental to the ability to conduct of an effective independent audit, ~~but there may be a risk that these premises may not be understood by management or those charged with governance.~~ To avoid misunderstanding, agreement is reached with management ~~or, where appropriate, those charged with governance~~ about their responsibilities, which may differ from their responsibilities prescribed by law or regulation, as part of agreeing and recording the terms of the audit engagement.

- A10a. In some jurisdictions, law or regulation may provide for management's responsibilities which are similar to those set out in paragraph 4(b); although they may be described differently. For those management's responsibilities that are

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similar, the auditor may use the wording of the law or regulation to describe them. In some jurisdictions, the accounting profession, on behalf of the auditor, may consider the similarity of management's responsibilities set out in paragraph 4(b) and those in the law or regulation.

A10b. [Proposed] ISA 580 (Revised and Redrafted), "Written Representations" requires the auditor to request management to provide written representations about the premise, relating to management's responsibilities, on which the audit has been conducted. Management's responsibilities are also described in the auditor's report (see [proposed] ISA 700 (Redrafted), "The Independent Auditor's Report on General Purpose Financial Statements.") If law or regulation prescribes management's responsibilities which are similar to those set out in paragraph 4(b), and the auditor uses the wording of the law or regulation to describe them in the terms of the audit engagement, [proposed] ISA 580 (Revised and Redrafted) and [proposed] ISA 700 (Redrafted) require the auditor to describe management's responsibilities in the manner they are described in the terms of the audit engagement.

A11. Since [proposed] ISA 580 (Revised and Redrafted), ~~"Written Representations"~~ requires the auditor to obtain written representations about the ~~validity of these premises, relating to management's responsibilities, on which the audit has been conducted,~~ it may also be appropriate to make management ~~and, where appropriate, those charged with governance,~~ aware that receipt of such written representations will be expected, together with written representations required by other ISAs and, where appropriate necessary, specific written representations about specific assertions of the financial statements which involve management's judgment or intent, or which may not be complete.

A12. Management ~~and, where appropriate, those charged with governance, are also responsible for providing complete information to the auditor to provide the auditor with all the information the auditor requires in connection with the audit of the entity~~ (see paragraph 4(b)(iii)). ~~Providing complete information~~ This includes granting unrestricted access to records, documentation and other information that is requested required by the auditor in connection with the audit of the entity.

A13. Where management ~~or those charged with governance~~ will not ~~make provide~~ the ~~necessary acknowledgements and~~ agreements, or will not agree to provide the ~~necessary~~ written representations, the auditor will be unable to obtain ~~sufficient appropriate necessary~~ audit evidence (see discussion on Audit Evidence in [proposed] ISA 580 (Revised and Redrafted)). In such circumstances, it may not be appropriate for the auditor to accept the audit engagement. In some cases, however, law or regulation ~~prevents the auditor from refusing~~ may prohibit the auditor from declining an audit engagement. In these cases, the auditor may need to explain to management or, where appropriate those charged with governance the importance of these matters, and the implications for the auditor's report.

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Agreement on Audit Engagement Terms (Ref: Para. 7-8)

Form and Content of the Audit Engagement Letter

A17. 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 ~~and management's responsibilities~~ may be based on [proposed] ISA 200 (Revised and Redrafted). Paragraphs 4(b), 4a and A10a of this ISA deal with the description of management's responsibilities in the audit engagement letter. In addition to including the matters required by paragraph 8, an audit engagement letter may make reference to, for example ...

- The expectation ~~of receiving from that~~ management ~~and, where appropriate, those charged with governance,~~ will provide the written ~~confirmation concerning~~ representations ~~made in connection with the audit~~ (see also paragraph A11).

Appendix 1

(Ref: Para. A18)

Example of an Audit Engagement Letter

...

[The responsibilities of management and identification of the applicable financial reporting framework (for purposes of this example, it is assumed that law or regulation does not prescribe management's responsibilities; the description in paragraph 4(b) of this ISA is therefore used)]

Our audit will be conducted on the ~~basis premise~~ that management ~~accepts the following responsibilities~~ acknowledge and understand their responsibility:

- ~~The responsibility for~~ the preparation and fair presentation of the financial statements (or preparation and presentation of financial statements that give a true and fair view) ~~that present fairly the financial position, financial performance and cash flows of the entity~~ in accordance with International Financial Reporting Standards and that this responsibility 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. This includes selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.
- ~~The responsibility for designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.~~

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- (c) ~~The responsibility of~~ To provide us with complete the auditor with all the information the auditor requires in connection with the audit ~~including~~ of the entity. This includes unrestricted access to records, documentation and other information ~~requested in connection with our audit~~ of which management are aware and that may affect the financial statements.

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