



January 2008

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

INVITATION TO COMMENT ON IAASB EXPOSURE DRAFTS OF INTERNATIONAL STANDARDS ON AUDITING

Proposed ISA 210 (Redrafted), *Agreeing the Terms of Audit Engagements* and Related Conforming Amendments to Other ISAs and ISA 710 (Redrafted), *Comparative Information – Corresponding Figures and Comparative Financial Statements*

Comments to be received by 31 March 2008

The Hong Kong Institute of Certified Public Accountants' (Institute) Auditing and Assurance Standards Committee is seeking comments on the IAASB Exposure Drafts which have been posted on the Institute's website at:

www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/.

The Explanatory Memorandum to the Exposure Drafts provides background information and explanation of the proposed ISAs.

In summary, the IAASB's intentions in developing the revisions to the ISAs are set out below:

Proposed ISA 210

The proposed ISA 210 deals with the auditor's responsibilities in agreeing the terms of the audit engagement with the entity and responding to a request by an entity to change the terms of an audit engagement for an audit of financial statements. The proposed ISA 210 has been redrafted applying the clarity drafting conventions and the IAASB is seeking comments in this connection and their effect on the content of ISA 210.

Included in the Exposure Draft are related conforming amendments to other ISAs as a result of the finalisation of ISA 580 (Revised and Redrafted) *Written Representations* in December 2007. The affected ISAs are 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*, ISA 210 (Redrafted) and ISA 700 (Redrafted) *The Independent Auditor's Report on General Purpose Financial Statements*

The amendments are proposed to deal with concerns raised by respondents to ED-ISA 580:

- Some respondents recommended that the description of management's responsibilities in the ISAs be consistent
- Some respondents were concerned about the relationship between the

description of management's responsibilities in the ISAs and that in law and regulation.

- Some respondents requested that management's responsibility for the completeness of information made available to the auditor be clarified.

The key changes are:

ISA 200

- Conforming amendment to proposed ISA 200 (Revised and Redrafted) that describes management's responsibilities to be consistent with ISA 700 (Redrafted).

ISA 700

- It is proposed that ISA 700 (Redrafted) should be revised to require that the auditor's report explain that management is responsible for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- The auditor's report shall describe management's responsibilities in the manner they are described in the terms of the audit engagement.
- It is no longer necessary to separately identify "selecting and applying appropriate accounting policies" and "making accounting estimates that are reasonable in the circumstances" as IAASB accepts that these are integral parts of the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework.

ISA 210

- It is proposed that ISA 210 (Redrafted) be revised to require the auditor to obtain management's agreement to its responsibilities as a precondition to accepting the audit engagement.
- It is proposed that ISA 210 (Redrafted) be revised to provide for the auditor to use the wording of the law or regulation to describe those responsibilities that the auditor has determined are equivalent in effect to those set out in the proposed ISA. For management's responsibilities that are not equivalent in effect, or that are not prescribed by law or regulation, the auditor is required to use the description in the proposed ISA.

Therefore, the IAASB is seeking views on the following:

- Do you agree with the proposed description of management's responsibilities in the ISAs?
- Do you agree that the description of management's responsibilities in the terms of the audit engagement, written representations and auditor's report may use the wording of the law or regulation if the auditor has determined that the law or

regulation includes responsibilities that are equivalent in effect to those described in the ISAs?

- Do you agree with the proposed conforming amendment to proposed ISA 700 (Redrafted)?
- Are there any residual concerns about the way in which management's responsibilities are dealt with that may cause difficulty in any particular jurisdiction?

Proposed ISA 710

The proposed ISA deals with the auditor's responsibilities regarding comparative information in an audit of financial statements. The proposed ISA has been revised for certain significant matter and applying the clarity drafting conventions.

The key changes are

- The proposed ISA 710 has been restructured to indicate that the auditor's procedures are the same in respect of corresponding figures and comparative financial statements.

In paragraphs 6 and 20 of extant ISA 710, which deal with the auditor's procedures in respect of corresponding figures and comparative financial statements respectively, both require the auditor to "obtain sufficient appropriate audit evidence that the corresponding figures/comparative financial statements meet the requirements of the applicable financial reporting framework. However, the related guidance differed, but did not clearly articulate a substantive difference in the work effort expected under either approach. The guidance regarding corresponding figures explained that the work effort for corresponding figures is significantly less than for the audit of the current period figures and is ordinarily limited (unless the auditor becomes aware of a possible material misstatement in the comparative information) to ensuring that the corresponding figures have been correctly reported and are appropriately classified. IAASB is of the view that, although this reference was included under the section on corresponding figures in the extant ISA, it broadly applied to any comparative information, and therefore also to comparative financial statements.

- For comparative financial statements, the auditor should obtain written representations from management in respect of each period for which the comparative financial statements are presented.
- For corresponding figures, written representations are required for the financial statements of the current period only, which includes the comparative information for the previous period.
- The proposed ISA 710 has been structured to set out separately the auditor's reporting responsibilities for the two approaches to presenting comparative information.

The IAASB is seeking views on the following:

- Do respondents agree that the auditor's procedures are the same for the two approaches to presenting comparative information, except for the responsibility to obtain written representations for more than one period in the case of comparative information presented as comparative financial statements?
- If so, do respondents agree with the structure according to which the proposed ISA has been redrafted to give effect to the auditor's responsibilities in the requirements?

In accordance with the Institute's ISA Convergence Due Process, comments are invited from any interested party and the Institute would like to hear from both those who do agree and those who do not agree with the proposals contained in the IAASB Exposure Drafts.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IAASB Exposure Drafts to be considered, comments on the exposure drafts are requested to be received by the Institute on or before **31 March 2008**. Comments may be sent by mail, fax or e-mail to:

Patricia McBride
Executive Director
Hong Kong Institute of Certified Public Accountants
37/F., Wu Chung House
213 Queen's Road East
Hong Kong

Fax number (+852) 2865 6776
E-mail: commentletters@hki CPA.org.hk

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

January 2008
Exposure Draft

Response Due Date
31 March 2008

ED of Proposed ISA 210 (Redrafted)

Agreeing the Terms of Audit Engagements and Related Conforming Amendments to Other ISAs

ED of Proposed ISA 710 (Redrafted)

Comparative Information – Corresponding Figures and Comparative Financial Statements



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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ED of Proposed ISA 210 (Redrafted) “Agreeing the Terms of Audit Engagements” and Related Conforming Amendments to Other ISAs

ED of Proposed ISA 710 (Redrafted) “Comparative Information – Corresponding Figures and Comparative Financial Statements”

IAASB Press release

This Exposure Draft may be filed in the “Exposure Drafts, Invitations to Comment” section of Volume III of the Institute Members’ Handbook.

The Exposure Draft can also be found on the Institute’s website at:
www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/.

*Proposed Redrafted International Standard on
Auditing*

ISA 210, Agreeing the Terms of Audit
Engagements
and
Related Conforming Amendments to
Other ISAs



REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC), approved the exposure draft, proposed International Standard on Auditing (ISA) 210 (Redrafted), “Agreeing the Terms of audit Engagements” and related conforming amendments to other ISAs in December 2007 for publication. This proposed ISA may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by **April 15, 2008**. All comments will be considered a matter of public record. Comments should be addressed to:

International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Comments should be emailed to Edcomments@ifac.org. They may also be faxed to +1-212-286-9570 or mailed to the above address.

Copies of the exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to proposed International Standard on Auditing (ISA) 210 (Redrafted), “Agreeing the Terms of Audit Engagements” and related conforming amendments to other ISAs. The proposed ISA has been redrafted in accordance with conventions agreed by the International Auditing and Assurance Standards Board (IAASB) to be applied to all ISAs. The IAASB approved the proposed redrafted ISA and related conforming amendments to other ISAs in December 2007 for exposure.

Background

As part of its project to improve the clarity of its International Standards, the IAASB has undertaken to redraft all of its ISAs in accordance with its new clarity drafting conventions. This approach responds to the desire for all ISAs to be consistently drafted, and subject to a single statement of their authority and effect. The IAASB has agreed, in response to the general call for the Clarity project to be completed within a reasonable time, that while a significant number of the ISAs are under substantive revision as well as redrafting to reflect the new conventions, others will be subject to a limited redrafting to reflect only the conventions and matters of clarity generally. Proposed ISA 210 (Redrafted) is in the latter category. Important links between proposed ISA 210 (Redrafted) and other ISAs (i.e., proposed ISA 200 (Revised and Redrafted),¹ ISA 580 (Revised and Redrafted)² and proposed ISA 700 (Redrafted)³) have, however, resulted in some substantive conforming amendments to proposed ISA 210 (Redrafted), in particular those arising from the revision of extant ISA 580⁴ (see section on Proposed Conforming Amendments below).

The conventions used by the IAASB in redrafting ISA 210,⁵ and the authority and obligation attaching to those conventions, are established in proposed ISA 200 (Revised and Redrafted) approved by the IAASB as an exposure draft in April 2007, and in the amended “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services” (Preface), approved by the IAASB in September 2006.⁶

¹ 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.”

² ISA 580 (Revised and Redrafted), “Written Representations,” which was approved by the IAASB in December 2007, will be published when the Public Interest Oversight Board has confirmed that the IAASB has followed due process in its development. In the interim, respondents can access the text of the ISA at <http://www.ifac.org/IAASB/Meeting-Resource.php?MID=0093&type=Updated+Agenda>.

³ Proposed ISA 700 (Redrafted), “The Independent Auditor’s Report on General Purpose Financial Statements.”

⁴ Extant ISA 580, “Management Representations.”

⁵ ISA 210, “Terms of Audit Engagements” amended as a result of the close off document of ISA 800 (Revised), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.” The close off document of ISA 800 revised can be accessed at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0093>.

⁶ The amended Preface can be accessed at http://web.ifac.org/download/IAASB_Preface.pdf. Proposed ISA 200 (Revised and Redrafted) can be accessed at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0079>.

Effective Date

The current timetable envisages that all ISAs will have been revised and redrafted, or redrafted only, by late 2008 and the IAASB has agreed that the complete set of ISAs will be effective for audits of financial statements for periods beginning on or after December 15, 2009. The IAASB believes that it is in the interests of auditors and others who use the ISAs that the ISAs should be released as soon as they are approved so as to facilitate their implementation.

Requests for Comments on the Application of the Clarity Drafting Conventions

Except for the matters referred to under the section on Proposed Conforming Amendments below, the IAASB is seeking comments **only** on changes resulting from applying the clarity drafting conventions, and their effect on the content of ISA 210.⁷ Respondents are asked to respond in particular to the following questions:

1. Are the objectives to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?
2. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors?⁸

Recognizing that the final ISA will apply to audits of all sizes and in all sectors of the economy, the IAASB is also interested in comments on matters set out below.

- *Special Considerations in the Audit of Smaller Entities*—Respondents are asked to comment whether, in their opinion, considerations in the audit of smaller entities have been dealt with appropriately in the proposed redrafted ISA.
- *Special Considerations in the Audit of Public Sector Entities*—Respondents are asked to comment whether, in their opinion, special considerations in the audit of public sector entities have been dealt with appropriately in the proposed redrafted ISA.
- *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the ISAs, the IAASB invites respondents from these nations to comment,

⁷ ISA 210 amended as a result of the close off document of ISA 800 (Revised).

⁸ The IAASB has identified the following criteria for determining the requirements of a Standard:

- The requirement is necessary to achieve the objective stated in the Standard;
- The requirement is expected to be applicable in virtually all engagements to which the Standard is relevant; or, in the case of circumstances that are reasonably likely to exist or arise in an engagement, the requirement is considered necessary to the consistent application of the ISA and the action specified is expected to be appropriate in virtually all such circumstances; and
- The objective stated in the Standard is unlikely to have been met by the requirements of other Standards.

In determining the requirements of a Standard, the IAASB will consider whether the requirements are proportionate to the importance of the subject matter of the Standard in relation to the overall objective of the engagement.

The criteria, which are intended only to assist the IAASB in appropriately and consistently determining requirements, may be refined as further experience is gained.

in particular, on any foreseeable difficulties in applying the proposed redrafted ISA in a developing nation environment.

- *Translations*—Recognizing that many respondents intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing the proposed redrafted ISA.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the IAASB to be made aware of this view.

Respondents are also invited to comment on any undue costs, set against the benefits of more consistent auditor performance, arising from the fact that the proposed redrafted ISA includes requirements that would previously have been guidance under the old drafting conventions, as in ISA 210⁹ (see below). In commenting on this matter, respondents should bear in mind the criteria that the IAASB has applied in redrafting the proposed ISA (see footnote 8) and the fact that the IAASB is seeking to clarify that there was some guidance in extant ISAs that was more in the nature of requirements and would already have been followed by many auditors.

Supplement to the Exposure Draft

To assist respondents in tracking changes, IAASB staff has prepared an analysis of the decisions that have been made by the IAASB with respect to the treatment of the present tense in the explanatory paragraphs of ISA 210.¹⁰ This analysis also demonstrates how the material in the ISA has been reflected in the proposed redrafted ISA. In particular, the analysis:

- Identifies existing sentences in the present tense and whether they are now treated as a requirement or as application material;
- Maps the material of the ISA to the proposed redrafted ISA; and
- Identifies explanatory material that is proposed to be eliminated or repositioned as a result of redrafting.

These staff-prepared mapping documents are available on the IAASB website at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0105>. They are for information purposes only and do not form part of the exposure draft.

Proposed Conforming Amendments

The exposure draft of proposed ISA 580 (Revised and Redrafted)¹¹ (ED-ISA 580) contained proposed conforming amendments to extant ISA 200¹² and ISA 210.¹³ The conforming amendments were incorporated in the exposure draft of proposed ISA 200 (Revised and Redrafted) (issued on

⁹ ISA 210 amended as a result of the close off document of ISA 800 (Revised).

¹⁰ ISA 210 amended as a result of the close off document of ISA 800 (Revised).

¹¹ Proposed ISA 580 (Revised and Redrafted), “Written Representations.”

¹² Extant ISA 200, “Objective and General Principles Governing an Audit of Financial Statements.”

¹³ ISA 210 amended as a result of the close off document of ISA 800 (Revised).

May 1, 2007) and would also have been incorporated in the exposure draft of proposed ISA 210 (Redrafted). However, in the process of finalizing ISA 580 (Revised and Redrafted) those amendments have been revised based on the responses to ED-ISA 580. The revised amendments are shown in marked text in proposed ISA 210 (Redrafted). The IAASB is also proposing a related conforming amendment to proposed ISA 700 (Redrafted). The proposed conforming amendments to proposed ISA 200 (Revised and Redrafted) and proposed ISA 700 (Redrafted) form part of this exposure draft. The paragraphs below provide the basis for the revised text and proposed conforming amendment to proposed ISA 700 (Redrafted).

The IAASB approved ISA 580 (Revised and Redrafted) as a final standard in December 2007. ISA 580 (Revised and Redrafted) will be published when the Public Interest Oversight Board (PIOB) has confirmed that the IAASB has followed due process in its development. In the interim, respondents can access the text of the ISA at <http://www.ifac.org/IAASB/Meeting-Resource.php?MID=0093&type=Updated+Agenda>. The IAASB recognizes that there may be a need for limited conforming amendments to the ISA as a result of finalizing proposed ISA 210 (Redrafted) and the related conforming amendments to proposed ISA 200 (Revised and Redrafted) and proposed ISA 700 (Redrafted).

Fundamental Premise—Description of Management’s Responsibilities

The Explanatory Memorandum to ED-ISA 580 explained that an audit of financial statements in accordance with ISAs is based on the fundamental premise that management¹⁴ acknowledges and understands that it is responsible for (a) the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; (b) 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 (c) the completeness of information made available to the auditor. ED-ISA 580 therefore proposed that:

- (a) Extant ISA 200 be amended to explain that an audit in accordance with ISAs are conducted on the premise that management has those responsibilities;
- (b) ISA 210¹⁵ be amended to require the auditor to obtain the agreement of management that it acknowledges and understands those responsibilities; and
- (c) Proposed ISA 580 (Revised and Redrafted) require the auditor to request management to provide written representations about those responsibilities.

The IAASB is proposing amendments to deal with three principal concerns raised by respondents:

- (a) Some respondents recommended that the description of management’s responsibilities in the ISAs be consistent.
- (b) Some respondents were concerned about the relationship between the description of management’s responsibilities in the ISAs and that in law or regulation.
- (c) Some respondents requested that management’s responsibility for the completeness of information made available to the auditor (see (c) above) be clarified.

¹⁴ For purposes of this explanatory memorandum, references to “management” should be read as “management and, where appropriate, those charged with governance.”

¹⁵ ISA 210 amended as a result of the close off document of ISA 800 (Revised).

The proposed amendments affect the conforming amendments to proposed ISA 200 (Revised and Redrafted), proposed ISA 210 (Redrafted) and proposed ISA 700 (Redrafted), but did not affect the ability of the IAASB to approve ISA 580 (Revised and Redrafted) as a final standard.

The IAASB agreed that the ISAs should describe management's responsibilities in clear and similar terms, and that they should provide for them to be described in the language of relevant law or regulation.

The IAASB noted, however, that there were further references to management's responsibility for the financial statements in proposed ISA 700 (Redrafted) and the form of auditor's report required by that standard. The IAASB debated whether the description of management's responsibility for the financial statements should be developed from that proposed in ED-ISA 580 and related conforming amendments, or whether all such descriptions should be aligned with the description in proposed ISA 700 (Redrafted) that was approved by the IAASB in December 2004 when extant ISA 700¹⁶ were issued. The IAASB, however, noted the following:

- (a) The description of management's responsibility for the financial statements in proposed ISA 700 (Redrafted) include separate identification of "selecting and applying appropriate accounting policies" and "making accounting estimates that are reasonable in the circumstances." The IAASB accepts that these are integral parts of the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework. They should therefore not be stated separately.
- (b) Some national auditing standard setters have not adopted extant ISA 700 because of the description of management's responsibility for the financial statements.

The IAASB therefore agreed that proposed ISA 700 (Redrafted) should be revised to require that the auditor's report explain that management is responsible for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. This would be consistent with the way in which management's responsibility for the financial statements is described in proposed ISA 200 (Revised and Redrafted).

After consideration of the response to ED-ISA 580, the IAASB proposes a conforming amendment to proposed ISA 200 (Revised and Redrafted) that describes management's responsibilities as follows: "Management has responsibility:

- (a) For the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and
- (b) To provide the auditor with:
 - (i) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;

¹⁶ Extant ISA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements."

- (ii) Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and
- (iii) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.”

The conforming amendments to ISA 210¹⁷ proposed by ED-ISA 580 required the auditor to obtain management’s agreement to its responsibilities as a precondition to accepting the audit engagement. In response to the comments that law or regulation may prescribe management’s responsibilities, the IAASB revised proposed ISA 210 (Redrafted) to provide for the auditor to use the wording of the law or regulation to describe those responsibilities that the auditor has determined are equivalent in effect to those set out in the proposed ISA. For management’s responsibilities that are not equivalent in effect, or that are not prescribed by law or regulation, the auditor is required to use the description in the proposed ISA. (See paragraph 11 of proposed ISA 210 (Redrafted).) In addition, in order to carry those responsibilities consistently through the other ISAs, ISA 580 (Revised and Redrafted) and proposed ISA 700 (Redrafted) require that management’s responsibilities be described in the manner they are described in the terms of the audit engagement.

Terms of the Audit Engagement vs. Written Representations

Based on the responses to ED-ISA 580, and discussion with IAASB members and IAASB Consultative Advisory Group representatives, the IAASB agreed that the terms of the audit engagement should contain the agreement with management about its responsibilities, while the representation letter should confirm that management believes that it has fulfilled those responsibilities. Accordingly, proposed ISA 210 (Redrafted) requires the auditor, in establishing whether necessary preconditions for an audit are present, to obtain management’s written agreement that it acknowledges and understands its responsibilities (see paragraphs 4(b) and 9 of proposed ISA 210 (Redrafted)).

ISA 580 (Revised and Redrafted) requires the auditor to request management to provide a written representation that management 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, whether the financial statements are prepared and presented in accordance with the applicable financial reporting framework. The auditor is also required to request management to provide a written representation that it has provided the auditor with all relevant information agreed in the terms of the audit engagement, and that all transactions have been recorded and are reflected in the financial statements. (See paragraphs 10 and 11 of ISA 580 (Revised and Redrafted).)

Request for Specific Comments

Respondents are invited to comment on the proposed conforming amendments to proposed ISA 200 (Revised and Redrafted), proposed ISA 210 (Redrafted) and proposed ISA 700 (Redrafted) as a result of ISA 580 (Revised and Redrafted). In particular, the IAASB would welcome views on the following:

1. Do you agree with the proposed description of management’s responsibilities in the ISAs?

¹⁷ ISA 210 amended as a result of the close off document of ISA 800 (Revised).

EXPLANATORY MEMORANDUM

2. Do you agree that the description of management's responsibilities in the terms of the audit engagement, written representations and auditor's report may use the wording of the law or regulation if the auditor has determined that the law or regulation includes responsibilities that are equivalent in effect to those described in the ISAs?
3. Do you agree with the proposed conforming amendment to proposed ISA 700 (Redrafted)?
4. Are there any residual concerns about the way in which management's responsibilities are dealt with that may cause difficulty in any particular jurisdiction?

To be considered, responses should be emailed to Edcomments@ifac.org. They may also be faxed to +1-212-286-9570 or mailed to 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. They should be received by **April 15, 2008**.

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

AGREEING THE TERMS OF AUDIT ENGAGEMENTS

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

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<p>[Proposed] International Standard on Auditing (ISA) 210, “Agreeing the Terms of Audit Engagements” should be read in conjunction with [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.”</p>
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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 the entity; and
 - (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 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 necessary preconditions for an audit are present; and
 - (b) Confirming that there is a common understanding between the auditor and the entity of the terms of the audit engagement and of the respective responsibilities of the auditor, management and those charged with governance.

Requirements

Preconditions for an Audit¹

4. In order to establish whether necessary preconditions for an audit are present, the auditor shall:
 - (a) Determine whether the financial reporting framework to be applied in the preparation and presentation of the financial statements is acceptable; and (Ref: Para. A3-A10)
 - (b) Obtain the agreement of management and, where appropriate, those charged with governance that they acknowledge and understand their responsibility: (Ref: Para. A11-A13, A17)
 - (i) For the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and (Ref: Para. A14-A16)

¹ [The underlined text in the proposed ISA indicates conforming amendments as a result of ISA 580 (Revised and Redrafted), as explained in the Explanatory Memorandum. ISA 580 (Revised and Redrafted), which was approved by the IAASB in December 2007, will be published when the Public Interest Oversight Board has confirmed that the IAASB has followed due process in its development. In the interim, respondents can access the text of the ISA at <http://www.ifac.org/IAASB/Meeting-Resource.php?MID=0093&type=Updated+Agenda.>]

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

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

5. If management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

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, 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, 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 agreement referred to in paragraph 4(b) has not been obtained.

Agreement on Audit Engagement Terms

7. The auditor shall agree the terms of the audit engagement with management or those charged with governance.
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 of any reports to be issued by the auditor.
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 engagement, it may not be necessary to 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 the responsibilities set out in paragraph 4(b). (Ref: Para. A18-A20)
11. If law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that are equivalent in effect to those set out in paragraph 4(b). 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 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 paragraph 4(b). (Ref: Para. A20)

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. A24)

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. A25-A27)
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 it is appropriate to do so. (Ref: Para. A28-A29)
15. Where the terms of the audit engagement are changed, the auditor and management or those charged with governance 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; and
 - (b) 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.

Additional Considerations in Engagement Acceptance

Wording Used to Express the Opinion

17. In some cases, law or regulation prescribes the wording of the audit 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.²

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 from doing so. An audit conducted in accordance with such law or regulation does not comply with ISAs. Accordingly, the auditor shall include no reference within the auditor’s report to the audit having been conducted in accordance with ISAs. (Ref: Para. A30 and A33)

Financial Reporting Standards Supplemented by Law or Regulation—Conflicts

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 audit opinion in the auditor’s report in accordance with [proposed] ISA 705 (Revised and Redrafted).³ (Ref: Para. A31)

Financial Reporting Framework Prescribed by Law or Regulation—Determined as Unacceptable

19. If the auditor has determined that the financial reporting framework prescribed by law or regulation is unacceptable, the auditor may nevertheless agree to accept the audit engagement but shall do so only if: (Ref: Para. A32-A33)
- (a) Management or those charged with governance agree to provide additional disclosures in the financial statements, 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

² [Proposed] ISA 706 (Revised and Redrafted), “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report.”

³ [Proposed] ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report.”

- (ii) Unless the auditor is required by law or regulation to express the auditor’s opinion on the financial statements by using the phrases “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.
20. If management or those charged with governance refuse to provide additional disclosures and the auditor is prohibited by law or regulation from refusing 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.

Application and Other Explanatory Material

Objective (Ref: Para. 3)

- A1. Establishing whether the necessary preconditions for an audit are present and agreeing on the terms of the audit engagement are complemented by acceptance and continuance requirements in [proposed] ISA 220 (Redrafted).⁴
- 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. 4(a))

- A3. 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 are required for 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 evaluate or measure the preparation and presentation of the financial statements.
- A4. 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 evaluating the financial statements. In many cases the auditor may presume that the financial reporting framework is acceptable, as described in paragraphs A8-A9.

⁴ [Proposed] ISA 220 (Redrafted), “Quality Control for an Audit of Financial Statements,” paragraphs [11-12].

Determining the Acceptability of the Financial Reporting Framework

- A5. Factors that may affect the auditor’s determination of the acceptability of the 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.
- A6. Many users of financial statements are not in a position to demand financial statements tailored to meet their specific information needs. While all the information needs of specific users cannot be met, there are financial information needs that are common to a wide range of users. Financial statements prepared 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.
- A7. 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)⁵ discusses the acceptability of financial reporting frameworks designed to meet the financial information needs of specific users.

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;

⁵ [Proposed] ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement,” paragraphs [9-10].

- 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.

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 4(a), the auditor is required to determine whether the financial reporting framework, adopted 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 19 and 20 apply.)

Jurisdictions that do not have authorized or recognized standards setting organizations or financial reporting frameworks prescribed by law or regulation

- A10. When an entity is registered or operating in a jurisdiction that does not have an authorized or recognized standards setting organization, or where use of the financial reporting framework is not prescribed by law or regulation, management or those charged with governance identify 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. 4(b))

- 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 4(b).⁶ This 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 7-11.
- A12. 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 these responsibilities.⁷ It may therefore be appropriate to make them aware that receipt of such written representations will be expected, together with written representations

⁶ [Proposed] ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing,” paragraph [8].

⁷ ISA 580 (Revised and Redrafted), “Written Representations,” paragraphs 10-11. [See footnote 2 of the Explanatory Memorandum.]

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.

- A13. Where management and, where appropriate, those charged with governance will not agree to their responsibilities, or to provide the written representations, the auditor will be unable to obtain sufficient appropriate audit evidence.⁸ In such circumstances, it may not be appropriate for the auditor to accept the audit engagement. 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.

Internal Control (Ref: Para. 4(b)(i))

- A14. “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.”⁹ 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 free from material misstatement, whether due to fraud or error.
- A15. 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.
- A16. 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. As books, records and systems are an integral part of internal control as defined in paragraph A14, no specific reference is made to them in paragraph 4(b) 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 may be appropriate for the auditor to explain to management and those charged with governance the scope of this responsibility.

⁸ ISA 580 (Revised and Redrafted), paragraph A28. [See footnote 2 of the Explanatory Memorandum.]

⁹ ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment,” paragraph 4(c).

Considerations Specific to Smaller Entities (Ref: Para. 4(b))

A17. 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*Audit Engagement Letter or Other Form of Written Agreement*¹⁰ (Ref: Para. 10-11)

A18. It is in the interest of both entity and 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 8. Even in those situations, the auditor may still find an audit engagement letter informative for these entities.

Considerations Specific to Public Sector Entities

A19. 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 8 not sufficiently covered by law or regulation would satisfy this requirement.

Responsibilities of Management and, where Appropriate, Those Charged with Governance Prescribed by Law or Regulation

A20. If, in the circumstances described in paragraphs A18-A19, the auditor concludes that it is not necessary to record the terms of the engagement in an 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 the responsibilities set out in paragraph 4(b). 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 paragraph 4(b). The accounting profession or national standard setter in a jurisdiction may provide guidance as to whether the description in law or regulation is equivalent.

¹⁰ 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.

Audits of Components (Ref: Para. 9)

A21. 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;
- 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.

Form and Content of the Audit Engagement Letter (Ref: Para. 8)

A22. The form and content of the audit engagement letter may vary for each entity. Information included in the audit engagement letter on the auditor's responsibilities may be based on [proposed] ISA 200 (Revised and Redrafted).¹¹ Paragraphs 4(b) 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 paragraphs 4(b) and 8, an audit engagement letter may make reference to, for example:

- Elaboration of the scope of the audit, including reference to applicable legislation, regulations, ISAs and ethical and other pronouncements of professional bodies to which the auditor adheres.
- The form of any other communication of results of the audit engagement.
- The fact that because of the 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 misstatement may remain undiscovered.
- Arrangements regarding the planning and performance of the audit.
- The expectation that management and, where appropriate, those charged with governance will provide written representations (see also paragraph A12).
- 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.

A23. When relevant, the following points could also be made in the audit engagement letter:

¹¹ [Proposed] ISA 200 (Revised and Redrafted), paragraphs [4-6].

- 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.

Recurring Audits (Ref: Para. 12)

A24. The auditor may decide not to send a new 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)

A25. A request from the entity for the auditor to change 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 circumstances. The auditor, as required by paragraph 13, considers the reason given for the request, particularly the implications of a restriction on the scope of the audit engagement.

- A26. 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.
- A27. 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)

- A28. 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, any legal or contractual implications of the change.
- A29. 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

Wording Used to Express the Opinion (Ref: Para. 17)

- A30. 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.¹² When law or regulation prescribes the wording of the auditor's report 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.

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

- A31. 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

¹² [Proposed] ISA 200 (Revised and Redrafted), paragraph [22].

statements. 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.

Financial Reporting Framework Prescribed by Law or Regulation—Determined as Unacceptable (Ref: Para. 17, 19-20)

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.

A33. Law or regulation may prescribe that the wording of the auditor’s opinion use the phrases “give a true and fair view” or “present fairly, in all material respects,” although the auditor concludes that the applicable financial reporting framework prescribed by law or regulation is unacceptable. In this case, the terms of the prescribed wording of the audit opinion are significantly different from the requirements of ISAs (see paragraph 17).

Considerations Specific to Public Sector Entities

A34. 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.

Appendix 1

(Ref: Para. A23)

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:¹³

[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 notes. 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. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 even some material misstatements may remain undiscovered.

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

¹³ 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.

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 description in paragraph 4(b) of this ISA is therefore used).]

Our audit will be conducted on the basis that management and, where appropriate, those charged with governance acknowledge and understand their responsibility:

- (a) For the preparation and fair presentation of the financial statements (or preparation and presentation of financial statements that give a true and fair view) in accordance with International Financial Reporting Standards; 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) All information, such as records and documentation, and other matters that are relevant to the preparation and fair presentation of the financial statements;
 - (ii) Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and
 - (iii) Unrestricted access to those 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]

We expect to report as follows:

[Insert text of sample report or include as an attachment.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....

Name and Title

Date

Appendix 2

(Ref: Para. A10)

Determining the Acceptability of General Purpose Frameworks**Jurisdictions that Do Not Have Authorized or Recognized Standards Setting Organizations or Financial Reporting Frameworks Prescribed by Law or Regulation**

1. As explained in paragraph A10 of this ISA, when an entity is registered or operating in a jurisdiction that does not have an authorized or recognized standards setting organization, or where use of the financial reporting framework is not prescribed by law or regulation, management 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 4(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.

PROPOSED CONFORMING AMENDMENTS

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”

[No amendments are proposed to paragraphs 1-6.]

Preparation of the Financial Statements

7. An audit by an independent auditor is premised on the fact that 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,¹ with the auditor engaged for purposes of forming and expressing an opinion on them. The audit of the financial statements does not relieve management and those charged with governance of their responsibilities. ~~The auditor is also entitled to expect that management and those charged with governance will make available to the auditor all the information the auditor requires for the purposes of the audit.~~
8. Accordingly, although ISAs do not impose responsibilities on management ~~and or~~ those charged with governance, and do not override laws and regulations that govern their responsibilities, an audit in accordance with ISAs are written, and audits are is conducted; on the premises that management and, where appropriate, those charged with governance have responsibility:
 - (a) ~~Acknowledge and understand their responsibility for preparing and presenting~~ For the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and (Ref: Para. A2-A8);
 - (b) ~~Acknowledge and understand their 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; and~~
 - (c) ~~Will~~ To provide complete information to the auditor with:
 - (iv) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;
 - (v) Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and
 - (vi) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

[No amendments are proposed to paragraphs 9-15.]

¹ The terms “management” and “those charged with governance” are ~~described~~ defined in [proposed] ISA 260 (Revised and Redrafted), “Communication with Those Charged with Governance.”

Definitions

16. For purposes of the ISAs, the following terms have the meanings attributed below ...

(g1) Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted – That management and, where appropriate, those charged with governance have the following responsibilities that are fundamental to the conduct of an audit in accordance with ISAs. That is, responsibility:

(ii) For the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and

(iii) To provide the auditor with:

- a. All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;
- b. Any additional information that the auditor may request from management and, where appropriate; and
- c. Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

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.

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 17-29 and A1.]

Preparation of the Financial Statements (Ref: Para. 8(a))

A2. As part of ~~its~~ their responsibility for ~~preparing and presenting~~ the preparation and presentation of the financial statements, management and, where appropriate, those charged with governance² ~~is~~ are responsible for ~~identifying~~ the identification of the applicable financial reporting framework, in the context of any relevant law or regulation. ~~Management is~~ They are also responsible for ~~preparing and presenting~~ the preparation and presentation of the financial statements in accordance with that framework, and ~~adequately describing for an~~ adequate description of that framework in the financial statements. The preparation of the financial statements requires management to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate

² ~~With oversight from those charged with governance.~~

accounting policies. These judgments are made in the context of the applicable financial reporting framework. Management’s responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework includes:

- ~~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;~~
- ~~Selecting and applying appropriate accounting policies; and~~
- ~~Making accounting estimates that are reasonable in the circumstances.~~

[No amendments are proposed to paragraphs A3-A7.]

A8. ~~[Proposed] ISA 210 (Redrafted), “Terms of Audit Engagements” establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.³ [Proposed] ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement” contains additional considerations for special purpose frameworks.⁴~~

A8a. 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 they acknowledge and understand their responsibilities set out in paragraph 8 as a precondition for accepting the audit engagement.⁵ The auditor is also required to obtain written representations about whether management and, where appropriate, those charged with governance have fulfilled those responsibilities.⁶

Considerations Specific to Public Sector Entities

A8b. The mandates for audits of the financial statements of public sector entities may be broader than those of other entities. As a result, the premise, relating to management’s responsibilities, on which an audit of the financial statements of a public sector entity is conducted may include additional responsibilities, such as the responsibility for the execution of transactions and events in accordance with legislation or proper authority.

[No amendments are proposed to paragraphs A9-A63.]

³ [Proposed] ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements,” paragraph [4(a)].

⁴ [Proposed] ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Special Purpose Financial Statements and Elements, Accounts or Items of a Financial Statement,” paragraphs [9-10].

⁵ [Proposed] ISA 210 (Redrafted), paragraph [4(b)].

⁶ ISA 580 (Revised and Redrafted), “Written Representations,” paragraphs 10-11. [See footnote 2 of the Explanatory Memorandum.]

Proposed ISA 700 (Redrafted), “The Independent Auditor’s Report on General Purpose Financial Statements”

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the independent auditor’s report issued as a result of an audit of general purpose financial statements. It also deals with forming an opinion on the financial statements.
2. [Proposed] ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report” deals with circumstances that may result in a modified opinion, the type of modification required, and how the form and content of the auditor’s report is affected in such circumstances. [Proposed] ISA 706 (Revised and Redrafted), “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report” deals with circumstances when the auditor considers including an Emphasis of Matter paragraph or an Other Matter(s) paragraph in the auditor’s report, and the form and placement of such paragraphs.
3. Consistency in the auditor’s report, when the audit has been conducted in accordance with International Standards on Auditing, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user’s understanding and to identify unusual circumstances when they occur.
 - 3a. The term management has been used in this ISA to describe those responsible for the preparation and presentation of the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction. For example, in some jurisdictions, the appropriate reference may be to those charged with governance (for example, the directors).

[No amendments are proposed to paragraphs 4-20.]

Management’s Responsibility for the Financial Statements

21. The auditor’s report shall include a section with the heading “Management’s⁷ Responsibility for the Financial Statements.”
22. In the Management’s Responsibility for the Financial Statements section, the auditor’s report shall ~~state~~ explain that management is responsible for the preparation and presentation 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 presentation of financial statements that are free from material misstatement, whether due to fraud or error;~~ (Ref: Para. A21- A23)
 - (a) ~~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;~~

⁷ Another term may be appropriate, depending on the legal framework. See paragraph 3a of this ISA.

- ~~(b) — Selecting and applying appropriate accounting policies; and~~
- ~~(c) — Making accounting estimates that are reasonable in the circumstances.~~

23. Where the financial statements are prepared in accordance with a fair presentation framework, the statement of management’s responsibility for the financial statements shall refer to “the preparation and fair presentation of the financial statements” or “the preparation and presentation of financial statements that give a true and fair view,” as appropriate in the circumstances, instead of “preparation and presentation.”

23a. The auditor’s report shall describe management’s responsibility for the financial statements in the manner that responsibility is described in the terms of the audit engagement. (Ref: Para. A23)

[No amendments are proposed to paragraphs 24-44 and A1-A20.]

Management’s Responsibility for the Financial Statements (Ref: Para. 22, 24)

A21. [Proposed] ISA 200 (Revised and Redrafted) explains the premises, relating to management’s responsibilities, on which an audit is conducted. Management is responsible for ~~preparing and presenting the preparation and presentation of~~ the financial statements in accordance with the applicable financial reporting framework. For example, in the case of many general purpose frameworks, management is responsible for ~~preparing 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. ~~To fulfill~~ ~~¶~~ This responsibility, management designs and implements includes the design, implementation and maintenance of internal control⁸ to prevent or to detect and correct misstatements, whether due to fraud or error, in order to ensure the reliability of the entity’s financial reporting. The preparation of the financial statements requires management to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.

A22. There may be circumstances when it is appropriate for the auditor to add to the description of management’s ~~responsibilities~~ responsibility in paragraph 22 to reflect additional responsibilities that are relevant to ~~preparing and presenting the preparation and presentation of~~ the financial statements in the context of the particular jurisdiction or the nature of the entity.

A23. In some jurisdictions, law or regulation may provide for management’s responsibilities which are equivalent in effect to those set out in [proposed] ISA 210 (Redrafted); although they may be described differently.⁹ For those management’s responsibilities that are equivalent, the

⁸ 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), “Identifying and Assessing the Risks of Material Misstatements Through Understanding the Entity and Its Environment”), no specific reference is made to them in paragraph 22 for the description of management’s responsibilities.

⁹ [Proposed] ISA 210 (Redrafted), paragraphs [11].

auditor may use the wording of the law or regulation to describe them in the terms of the audit engagement.

~~A23. The term management has been used in this ISA to describe those responsible for preparing and presenting the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction. For example, in some jurisdictions, the appropriate reference may be to those charged with governance (for example, the directors).~~

[No amendments are proposed to paragraphs A24-A54.]

[The illustrative auditors' reports in the Appendix will be amended to indicate that for those reports it is assumed that management's responsibility for the financial statements is described in the terms of the audit engagement using the wording of the premise. The description of Management's Responsibility for the Financial Statements will be amended as proposed in paragraph 22.]



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*Proposed Redrafted International Standard on
Auditing*

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



International Federation
of Accountants

REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC), approved the exposure draft, proposed International Standard on Auditing (ISA) 710, “Comparative Information—Corresponding Figures and Comparative Financial Statements” in December 2007 for publication. This proposed ISA may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by **April 15, 2008**. All comments will be considered a matter of public record. Comments should be addressed to:

International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Comments should be emailed to Edcomments@ifac.org. They may also be faxed to +1-212-286-9570 or mailed to the above address.

Copies of the exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to proposed International Standard on Auditing (ISA) 710 (Redrafted), “Comparative Information—Corresponding Figures and Comparative Financial Statements.” The proposed ISA has been redrafted in accordance with conventions agreed by the International Auditing and Assurance Standards Board (IAASB) to be applied to all ISAs. The IAASB approved the proposed redrafted ISA for exposure in December 2007.

Background

As part of its project to improve the clarity of its International Standards, the IAASB has undertaken to redraft all of its ISAs in accordance with its new clarity drafting conventions. This approach responds to the desire for all ISAs to be consistently drafted, and subject to a single statement of their authority and effect. The IAASB has agreed, in response to the general call for the Clarity project to be completed within a reasonable time, that while a significant number of the ISAs are under substantive revision as well as redrafting to reflect the new conventions, others will be subject to a limited redrafting to reflect only the conventions and matters of clarity generally. Proposed ISA 710 (Redrafted) is in the latter category.

The conventions used by the IAASB in redrafting extant ISA 710,¹ and the authority and obligation attaching to those conventions, are established in proposed ISA 200 (Revised and Redrafted)² approved by the IAASB as an exposure draft in April 2007, and in the amended “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services” (Preface), approved by the IAASB in September 2006.³

Effective Date

The current timetable envisages that all ISAs will have been revised and redrafted, or redrafted only, by late 2008 and the IAASB has agreed that the complete set of ISAs will be effective for audits of financial statements for periods beginning on or after December 15, 2009. The IAASB believes that it is in the interests of auditors and others who use the ISAs that the ISAs should be released as soon as they are approved so as to facilitate their implementation.

Significant Matters

Work Effort Involved for Corresponding Figures and Comparative Financial Statements

Audit Procedures

Paragraphs 6 and 20 in extant ISA 710, which deal with the auditor’s procedures in respect of corresponding figures and comparative financial statements respectively, both require the auditor

¹ Extant ISA 710, “Comparatives.”

² 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.”

³ The amended Preface can be accessed at http://web.ifac.org/download/IAASB_Preface.pdf. Proposed ISA 200 (Revised and Redrafted) can be accessed at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0079>.

to ‘obtain sufficient appropriate audit evidence that the corresponding figures / comparative financial statements meet the requirements of the applicable financial reporting framework.’ The related guidance differed, but did not clearly articulate a substantive difference in the work effort expected under either approach. The guidance regarding corresponding figures explained that the work effort for the corresponding figures is significantly less than for the audit of the current period figures and is ordinarily limited (unless the auditor becomes aware of a possible material misstatement in the comparative information) to ensuring that the corresponding figures have been correctly reported and are appropriately classified. The IAASB concluded that, although this reference was included under the section on corresponding figures in the extant ISA, it broadly applied to any comparative information, and therefore also to comparative financial statements.

Accordingly, proposed ISA 710 (Redrafted) has been restructured to indicate that the auditor’s procedures are the same under the two different approaches to presenting comparative information. The IAASB did, however, recognize that, in the case of comparative financial statements, the auditor should obtain written representations from management in respect of each period for which the comparative financial statements are presented. In the case of corresponding figures, written representations are required for the financial statements of the current period only, which includes the comparative information for the previous period. Although this requirement is established in ISA 580 (Revised and Redrafted),⁴ the IAASB considered it appropriate to include a cross reference to that requirement, and to explain the reasons for the difference in approach to written representations under corresponding figures and comparative financial statements, in the application and other explanatory material of proposed ISA 710 (Redrafted).

Audit Reporting

As the audit reporting requirements are different for the two approaches to presenting comparative information, proposed ISA 710 (Redrafted) has been structured to set out separately the auditor’s reporting responsibilities for each approach to presenting comparative information.

Guide for Respondents

Request for Specific Comments

The IAASB would welcome views on the following:

1. Do respondents agree that the auditor’s procedures are the same for the two approaches to presenting comparative information, except for the responsibility to obtain written representations for more than one period in the case of comparative information presented as comparative financial statements?
2. If so, do respondents agree with the structure according to which the proposed ISA has been redrafted to give effect to the auditor’s responsibilities in the requirements?

⁴ ISA 580 (Revised and Redrafted), “Written Representations.” ISA 580 (Revised and Redrafted), which was approved by the IAASB in December 2007, will be published when the Public Interest Oversight Board has confirmed that the IAASB has followed due process in its development. In the interim, respondents can access the text of the ISA at <http://www.ifac.org/IAASB/Meeting-Resource.php?MID=0093&type=Updated+Agenda>.

Request for Comments on the Application of the Clarity Drafting Conventions

Except for the matters referred to above, the IAASB is seeking comments **only** on changes resulting from applying the clarity drafting conventions, and their effect on the content of the extant ISA. Respondents are asked to respond in particular to the following questions:

1. Is the objective to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?
2. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors?⁵

Recognizing that the final ISA will apply to audits of all sizes and in all sectors of the economy, the IAASB is also interested in comments on matters set out below.

- *Special Considerations in the Audit of Smaller Entities*—Respondents are invited to identify special considerations in the audit of smaller entities, if any.
- *Special Considerations in the Audit of Public Sector Entities*—Respondents are invited to identify special considerations in the audit of public sector entities, if any.
- *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the ISAs, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed redrafted ISA in a developing nation environment.
- *Translations*—Recognizing that many respondents intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing the proposed redrafted ISA.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the IAASB to be made aware of this view.

⁵ The IAASB has identified the following criteria for determining the requirements of a Standard:

- The requirement is necessary to achieve the objective stated in the Standard;
- The requirement is expected to be applicable in virtually all engagements to which the Standard is relevant; or, in the case of circumstances that are reasonably likely to exist or arise in an engagement, the requirement is considered necessary to the consistent application of the ISA and the action specified is expected to be appropriate in virtually all such circumstances; and
- The objective stated in the Standard is unlikely to have been met by the requirements of other Standards.

In determining the requirements of a Standard, the IAASB will consider whether the requirements are proportionate to the importance of the subject matter of the Standard in relation to the overall objective of the engagement.

The criteria, which are intended only to assist the IAASB in appropriately and consistently determining requirements, may be refined as further experience is gained.

Respondents are also invited to comment on any undue costs, set against the benefits of more consistent auditor performance, arising from the fact that the proposed redrafted ISA includes requirements that would previously have been guidance under the old drafting conventions, as in the extant ISA (see below). In commenting on this matter, respondents should bear in mind the criteria that the IAASB has applied in redrafting the proposed ISA (see footnote 5) and the fact that the IAASB is seeking to clarify that there was some guidance in extant ISAs that was more in the nature of requirements and would already have been followed by many auditors.

Supplement to the Exposure Draft

To assist respondents in tracking changes, IAASB staff has prepared an analysis of the decisions that have been made by the IAASB with respect to the treatment of the present tense in the explanatory paragraphs of the extant ISA. This analysis also demonstrates how the material in the extant ISA has been reflected in the proposed redrafted ISA. In particular, the analysis:

- Identifies existing sentences in the present tense and whether they are now treated as a requirement or as application and other explanatory material;
- Maps the material of the extant ISA to the proposed redrafted ISA; and
- Identifies explanatory material that is proposed to be eliminated or repositioned as a result of redrafting.

These staff-prepared mapping documents are available on the IAASB website at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0106>. They are for information purposes only and do not form part of the exposure draft.

<p>To be considered, responses should be emailed to Edcomments@ifac.org. They may also be faxed to +1-212-286-9570 or mailed to 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. They should be received by April 15, 2008.</p>

PROPOSED INTERNATIONAL STANDARD ON AUDITING 710
(REDRAFTED)
COMPARATIVE INFORMATION—
CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

(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) 710, “Comparative Information—Corresponding Figures and Comparative Financial Statements” should be read in conjunction with [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.”

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities regarding comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in [proposed] ISA 510 (Redrafted)¹ regarding opening balances also apply.

The Nature of Comparative Information

2. The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to comparative information in financial reporting frameworks: corresponding figures and comparative financial statements. The auditor's reporting requirements regarding comparative information in an audit of financial statements differ depending on whether the comparative information is corresponding figures or comparative financial statements. The essential audit reporting differences are:
 - (a) For corresponding figures, the auditor's report refers only to the financial statements of the current period and does not separately identify the corresponding figures; whereas
 - (b) For comparative financial statements, the auditor's report refers to each period for which financial statements are presented.

This ISA addresses separately the auditor's reporting requirements for each circumstance.

Effective Date

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

Objective

4. The objective of the auditor is to obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements complies, in all material respects, with the applicable financial reporting framework.

Definitions

5. For the purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Comparative information – The amounts and disclosures included in the financial statements in respect of one or more previous periods. Comparative information may be corresponding figures or comparative financial statements.

¹ [Proposed] ISA 510 (Redrafted), "Initial Audit Engagements—Opening Balances."

- (b) Corresponding figures – Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as “current period figures”). The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.
- (c) Comparative financial statements – Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period, but are considered separate financial statements on which an audit opinion is expressed. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period (including all statement amounts, disclosures and other explanatory statements to the extent that they continue to be of significance).

For purposes of this ISA, references to “prior period” should be read as “prior periods” when the comparative information includes amounts and disclosures for more than one period.

Requirements

Audit Procedures

6. The auditor shall determine whether the financial statements correctly include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether:
 - (a) The comparative information agrees with the amounts and other disclosures presented in the prior period or, when appropriate, have been restated; and
 - (b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.
7. If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists.
8. As required by ISA 580 (Revised and Redrafted),² the auditor shall request written representations for all periods referred to in the auditor’s report. (Ref: Para. A1)

² ISA 580 (Revised and Redrafted), “Written Representations,” paragraph 14. [See footnote 4 of the Explanatory Memorandum.]

Audit Reporting

Corresponding Figures

9. When the comparative information is presented as corresponding figures, the auditor's report shall not specifically identify the corresponding figures except in the circumstances described in paragraphs 10, 11(b), 12 and 13. (Ref: Para. A2)
10. If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved:
 - (a) If the effects or possible effects of the matter on the current period's figures are material and require a modification to the auditor's opinion regarding the current period figures, the auditor shall refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification in the Basis for Modification paragraph; or
 - (b) If the effects or possible effects of the matter are either not relevant or material to the current period figures, the auditor shall nevertheless modify the opinion in the auditor's report on the current period's financial statements because of the effect or possible effects of the matter on the corresponding figures. (Ref: Para. A3)
11. If the auditor becomes aware of a material misstatement that affects the prior period financial statements on which an unmodified report has been previously issued, the auditor shall follow the relevant requirements of ISA 560 (Redrafted),³ and:
 - (a) If the prior period financial statements have been amended and reissued with a new auditor's report, the auditor shall obtain sufficient appropriate audit evidence that the corresponding figures agree with the amended financial statements; or
 - (b) If the prior period financial statements have not been amended and reissued, and the corresponding figures have not been properly restated or appropriate disclosures have not been made, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein. (Ref: Para. A4)

Prior Period Financial Statements Audited by a Predecessor Auditor

12. If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall indicate in an Other Matter(s) paragraph in the auditor's report:
 - (a) That the financial statements of the prior period were audited by the predecessor auditor;

³ ISA 560 (Redrafted), "Subsequent Events," paragraphs 14-17. [ISA 560 (Redrafted), which was approved by the IAASB in December 2007, will be published when the Public Interest Oversight Board has confirmed that the IAASB has followed due process in its development. In the interim, respondents can access the text of the ISA at <http://www.ifac.org/IAASB/Meeting-Resource.php?MID=0093&type=Updated+Agenda>.]

- (b) The type of opinion issued by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
- (c) The date of that report.

Prior Period Financial Statements Not Audited

13. If the prior period financial statements were not audited, the auditor shall state in an Other Matter(s) 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.⁴

Comparative Financial Statements

14. When the comparative information is presented as comparative financial statements, the auditor’s report shall specifically identify each period for which financial statements are presented and on which an audit opinion is expressed. (Ref: Para. A5)
15. When reporting on prior period financial statements in connection with the current period’s audit, if the opinion on such prior period financial statements differs from the opinion previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter(s) paragraph in accordance with [proposed] ISA 706 (Revised and Redrafted).⁵ (Ref: Para. A6)

Prior Period Financial Statements Audited by a Predecessor Auditor

16. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period’s financial statements, the auditor shall state in an Other Matter(s) paragraph:
 - (a) that the financial statements of the prior period were audited by a predecessor auditor;
 - (b) the type of opinion issued by the predecessor auditor and if the opinion was modified, the reasons therefor; and
 - (c) the date of that report,
 unless the predecessor auditor’s report on the prior period’s financial statements is reissued with the financial statements.
17. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall, in addition to the communications required in accordance with [proposed] ISA 510 (Redrafted),⁶ propose that the prior period financial statements

⁴ [Proposed] ISA 510 (Redrafted), paragraph [5].

⁵ [Proposed] ISA 706 (Revised and Redrafted), “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report,” paragraph [9].

⁶ [Proposed] ISA 510 (Redrafted), paragraph [6].

be amended. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period. (Ref: Para. A7)

Prior Period Financial Statements Not Audited

18. If the prior period financial statements are not audited, the auditor shall state in the auditor's report that the comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to carry out appropriate audit procedures regarding opening balances of the current period.⁷

Application and Other Explanatory Material

Audit Procedures

Written Representations (Ref: Para. 8)

- A1. In the case of comparative financial statements, the written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior period remain appropriate. In the case of corresponding figures, the written representations are for the financial statements of the current period only because the auditor's opinion is on those financial statements, which include the corresponding figures. The auditor may, however, determine that it is necessary to obtain a written representation regarding any amendments made to resolve a material misstatement in the prior period financial statements.

Audit Reporting

Corresponding Figures (Ref: Para. 9-11)

- A2. The auditor's report does not refer to the corresponding figures because the audit opinion is on the current period financial statements as a whole, including the corresponding figures.
- A3. When the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modified opinion is resolved and properly dealt with in the financial statements in accordance with the applicable financial reporting framework, the current auditor's report need not refer to the previous modification.
- A4. When the prior period financial statements that are misstated have not been amended and an auditor's report has not been reissued, but the corresponding figures have been properly restated or appropriate disclosures have been made in the current period financial statements, the auditor's report may include an Emphasis of Matter paragraph describing the circumstances and referring to where relevant disclosures that fully

⁷ [Proposed] ISA 510 (Redrafted), paragraph [5].

describe the matter can be found in the financial statements (see [proposed] ISA 706 (Revised and Redrafted)).

Comparative Financial Statements (Ref: Para. 14-15)

- A5. The auditor’s report refers to the comparative financial statements because an audit opinion is expressed on the financial statements of each period presented. Because the auditor’s report on comparative financial statements applies to the financial statements for each of the periods presented, the auditor’s report may express a qualified opinion or an adverse opinion, disclaim an opinion, or include an Emphasis of Matter paragraph with respect to one or more periods, while issuing a different auditor’s opinion on the financial statements of the other period.
- A6. When reporting on the prior period financial statements in connection with the current period’s audit, the opinion expressed on the prior period financial statements may be different from the opinion previously expressed if the auditor becomes aware of circumstances or events that materially affect the financial statements of a prior period during the course of the audit of the current period.

Prior Period Financial Statements Audited by a Predecessor Auditor (Ref: Para. 17)

- A7. The predecessor auditor may not agree with a proposed restatement or may refuse to reissue the auditor’s report on the prior period financial statements. An Other Matter(s) paragraph of the auditor’s report may indicate that the predecessor auditor reported on the financial statements of the prior period before restatement. In addition, if the auditor applies sufficient audit procedures to be satisfied as to the appropriateness of the restatement adjustment, the auditor’s report may also include the following paragraph:

“We also audited the adjustments described in Note X that were applied to restate the 20X1 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.”

Example Auditor's Reports

Example A - Corresponding Figures

Report illustrative of the circumstances described in paragraph 10(a), as follows:

- **The auditor's report on the prior period, as previously issued, included a qualified opinion.**
- **The matter giving rise to the modification is unresolved.**
- **The effects or possible effects of the matter on the current period's figures are material and require a modification to the auditor's opinion regarding the current period figures.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements⁸

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 notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation⁹ of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

⁸ 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.

⁹ 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."

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 presentation¹⁰ 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.¹¹ 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 qualified audit opinion.

Basis for Qualified Opinion

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which practice, in our opinion, is not in accordance with International Financial Reporting Standards. This is the result of a decision taken by management at the start of the preceding financial year and caused us to qualify our audit opinion on the financial statements relating to that year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by xxx in 20X1 and xxx in 20X0, the fixed assets should be reduced by accumulated depreciation of xxx in 20X1 and xxx in 20X0, and the accumulated loss should be increased by xxx in 20X1 and xxx in 20X0.

Qualified Opinion

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

¹⁰ 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."

¹¹ 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 10, 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."

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]

Example B - Corresponding Figures

Report illustrative of the circumstances described in paragraph 10(b), as follows:

- **The auditor’s report on the prior period, as previously issued, included a qualified opinion.**
- **The matter giving rise to the modification is unresolved.**
- **The effects or possible effects of the matter are not relevant to the current period figures.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements¹²

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 notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation¹³ of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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

¹² 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.

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.”

internal control relevant to the entity’s preparation and fair presentation¹⁴ 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.¹⁵ 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 qualified audit opinion.

Basis for Qualified Opinion

Because we were appointed auditors of the Company during 20X0, we were not able to observe the counting of the physical inventories at the beginning of that period or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories enter into the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 20X0. Our auditor’s report on the financial statements for the (period) ended (balance sheet date) 20X0 was modified accordingly.

Qualified Opinion

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects (or “*give a true and fair view of*”) the financial position of the Company as of December 31, 20X1, and 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]

¹⁴ 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.”

¹⁵ 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 14, 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.”

Example C - Corresponding Figures:

Report illustrative of the circumstances described in paragraph 12, as follows:

- **The prior period’s financial statements were audited by a predecessor auditor.**
- **The auditor is permitted by law or regulation to refer to the predecessor auditor’s report on the corresponding figures and decides to do so.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements¹⁶

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 notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation¹⁷ of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 presentation¹⁸ of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

¹⁶ 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.

¹⁷ 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.”

¹⁸ 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.”

for the purpose of expressing an opinion on the effectiveness of the entity's internal control.¹⁹ 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 the Company as of December 31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The financial statements of the Company for the year ended December 31, 20X0, were audited by another auditor whose report dated March 31, 20X1 expressed an unqualified opinion on those statements.

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]

¹⁹ 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 18, 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.”

Example D - Comparative Financial Statements:

Report illustrative of the circumstances described in paragraph 14, as follows:

- **Auditor is required to report on both the current period financial statements and the prior period financial statements in connection with the current year’s audit.**
- **The auditor’s report on the prior period, as previously issued, included a qualified opinion.**
- **The matter giving rise to the modification is unresolved.**
- **The effects or possible effects of the matter on the current period’s figures are material to both the current period financial statements and prior period financial statements and require a modification to the auditor’s opinion.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements²⁰

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheets as at December 31, 20X1 and 20X0, and the income statements, statements of changes in equity and cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation²¹ of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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

²⁰ 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.

²¹ 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.”

internal control relevant to the entity's preparation and fair presentation²² 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.²³ 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 qualified audit opinion.

Basis for Qualified Opinion

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which practice, in our opinion, is not in accordance with International Financial Reporting Standards. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by xxx in 20X1 and xxx in 20X0, the fixed assets should be reduced by accumulated depreciation of xxx in 20X1 and xxx in 20X0, and the accumulated loss should be increased by xxx in 20X1 and xxx in 20X0.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects (or "*give a true and fair view of*") the financial position of the Company as of December 31, 20X1 and 20X0 and its financial performance and its cash flows for the years 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]

²² 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."

²³ 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 22, 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."

Example E – Comparative Financial Statements

Report illustrative of the circumstances described in paragraph 16, as follows:

- **The financial statements of the prior period were audited by a predecessor auditor.**
- **The predecessor auditor agrees to have the predecessor auditor’s report on the prior period reissued with the financial statements.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements²⁴

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 notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation²⁵ of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 presentation²⁶ of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

²⁴ 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.

²⁵ 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.”

²⁶ 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.”

for the purpose of expressing an opinion on the effectiveness of the entity's internal control.²⁷ 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 qualified audit opinion.

Basis for Qualified Opinion

The financial statements of the Company for the year ended December 31, 20X0 were audited by another auditor whose report dated March 31, 20X1, which is included with the financial statements, expressed a qualified opinion due to a disagreement as to the adequacy of the provision for doubtful receivables. The relevant receivables are still outstanding at December 31, 20X1 and no provision for potential loss has been made by management in the financial statements. Accordingly, the provision for doubtful receivables at December 31, 20X1 and 20X0 should be increased by xxx, the net profit for 20X0 decreased by xxx and the retained earnings at December 31, 20X1 and 20X0 reduced by xxx.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects (or “*give a true and fair view of*”) the financial position of the Company as of December 31, 20X1, and 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]

²⁷ 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 26, 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.”



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International Auditing and Assurance Standards Board Completes First Phase of Clarity Project

(New York/January 14, 2008) - The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board under the auspices of the International Federation of Accountants (IFAC), is releasing the last two exposure drafts written in accordance with the new clarity drafting conventions. It approved the exposure drafts of proposed International Standard on Auditing (ISA) 210 (Redrafted), *Agreeing the Terms of Audit Engagements*, and proposed ISA 710 (Redrafted), *Comparative Information - Corresponding Figures and Comparative Financial Statements*, at its meeting in Washington, D.C. in December 2007. Subject to any comments on exposure, the final standards will become effective for audits of financial statements for periods beginning on or after December 15, 2009.

The release of these exposure drafts marks the completion of the first phase of the IAASB's ambitious 18-month program to redraft existing standards and to develop new and revised standards following the new drafting conventions.*

"This is a major milestone on the IAASB's path to develop high quality international standards that are more readily understood, applied and enforced," emphasizes IAASB Chairman John Kellas, adding, "The redrafted ISAs provide more clarity as to the requirements which should contribute to improving the consistency of their application by auditors around the world."

"The IAASB is on track to complete the Clarity project by the end of 2008. When completed, 21 extant ISAs will have been fully revised, or updated and redrafted, in the last five years, and the remaining 11 will have been redrafted in accordance with the new conventions. In addition, International Standard on Quality Control 1 will have been redrafted and a new ISA on communicating deficiencies in internal control completed," explains Jim Sylph, Executive Director, Professional Standards.

How to Comment

Comments on the exposure drafts are requested by April 15, 2008. The exposure drafts may be viewed by going to <http://www.ifac.org/EDs>. Comments may be submitted by email to EDComments@ifac.org. They can also be faxed to the attention of the Executive Director, Professional Standards at +1 (212) 286-9570 or mailed to IFAC, 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. All comments will be considered a matter of public record and will ultimately be posted on IFAC's website.

About the IAASB and IFAC

The objective of the IAASB is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. The Public Interest Oversight Board oversees the activities of the IAASB and, as one element of that oversight, establishes its due process and working procedures.

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of 157 members and associates in 123 countries and jurisdictions, representing more than 2.5 million accountants in public practice, education, government service, industry and commerce. In addition to setting international auditing and assurance standards through the IAASB, IFAC, through its independent standard-setting boards, sets international ethics, education, and public sector accounting standards. It also issues guidance to encourage high quality performance by professional accountants in business.

*For more information about the IAASB Clarity Project, go to <http://www.ifac.org/IAASB/ProjectHistory.php?ProjID=0024>.

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