



Western India Regional Council (ICAI)

SA210 - Agreeing the Terms of Audit
Engagements

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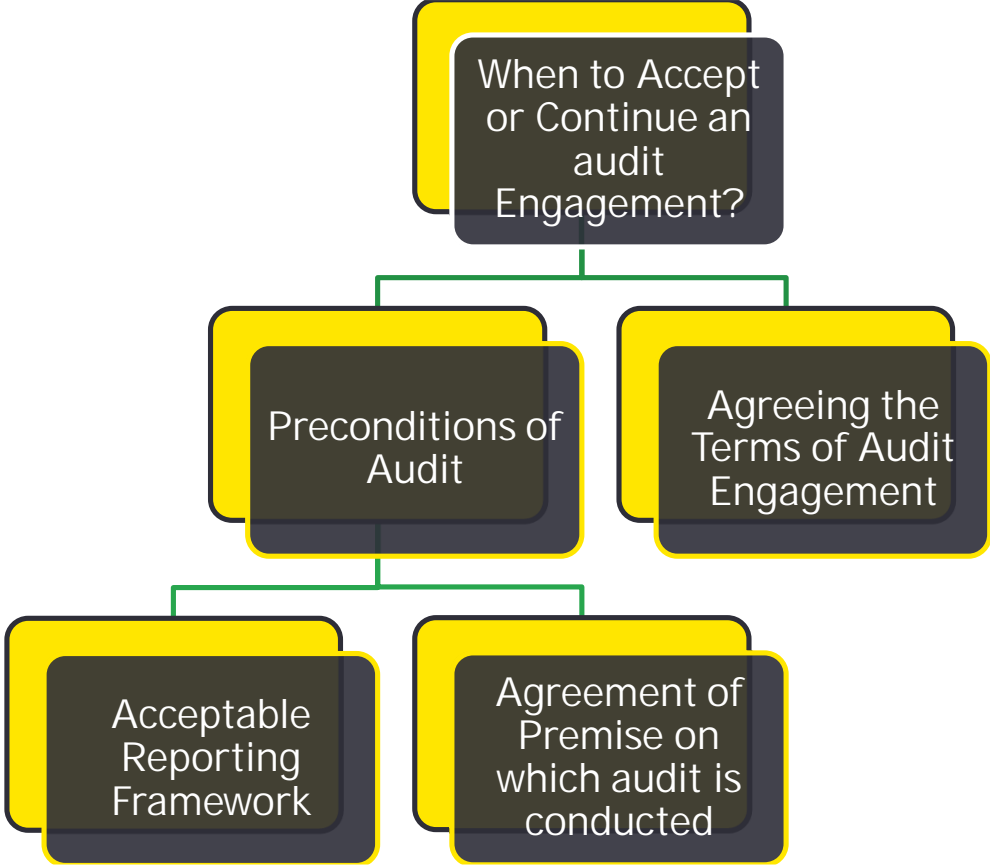




Section 1

Scope and Objectives

Overview of the SA 210



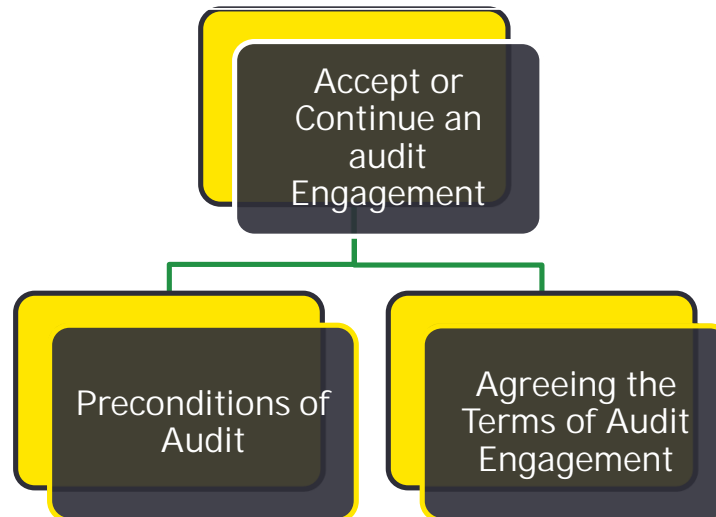
Scope of SA 210

- It is the auditor's responsibility in agreeing terms of audit engagement with management and where applicable with those charged with governance (TCWG).
- Basic condition for acceptance of an audit and agreeing the terms of audit engagement includes establishing that certain pre-conditions are present
- Pre-conditions/Matters which rests with or are in control of the management/TCWG are covered as part of this SA
- Pre-conditions/Matters which are in control of auditor are not covered by this SA and is a part of SA 220 (i.e. relevant ethical requirement such as independence and professional competence)

Objectives of SA 210

The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed through:

- Establishing whether the pre-conditions for an audit are present
- Confirming that there is a common understanding between the auditor and management/TCGW of terms of the audit engagement





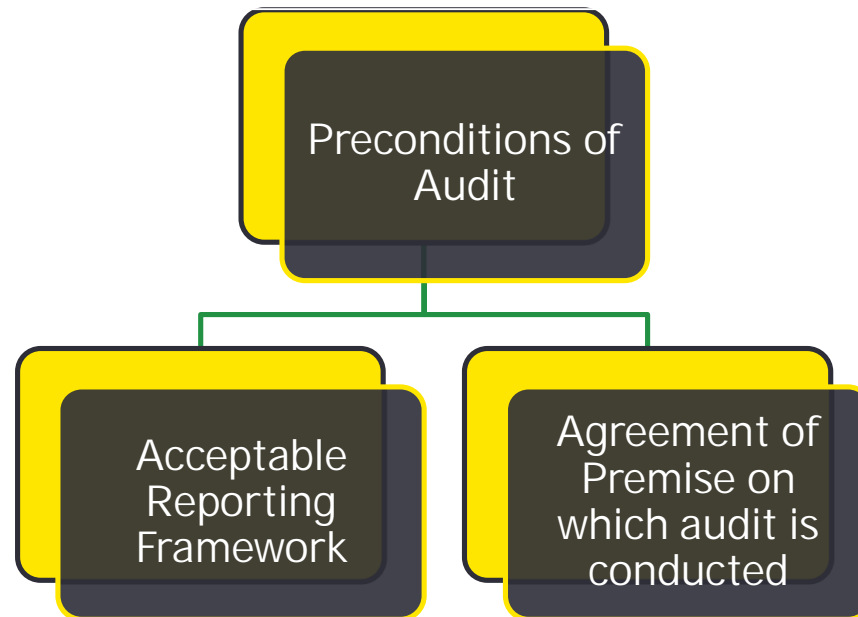
Section 2

Pre-Conditions of an Audit

Pre-condition for an audit

Definition:

- The use by management of an acceptable financial reporting framework in the preparation of financial statement and
- The agreement of management/TCWG to the premise on which audit is conducted



Pre-condition for an audit – Financial reporting framework

Condition 1: Determine whether financial reporting framework to be applied in the preparation of the financial statement is acceptable.

What is financial reporting framework?

- The applicable financial framework provides the criteria the auditor uses to audit the financial statements, including where relevant their fair presentation.

- Without an acceptable financial framework
 1. a management does not have a appropriate basis for the preparation of the financial statement and
 2. the auditor does not have suitable criteria for auditing the financial statement

Pre-condition for an audit – Financial reporting framework

Factors relevant to the auditor's determination of the acceptability of the financial reporting framework for preparation of financial statements:

- The nature of the entity
- The purpose of financial statements
- The nature of the financial statements
- Whether law or regulation prescribes the applicable financial reporting framework

Financial reporting framework - Examples

- Accounting standards issued by Institute of Chartered Accountants of India (ICAI) and /or Accounting standards, notified by the Central Government by publishing the same as the Companies (Accounting Standard) Rules
- Accounting standards for Local Bodies issued by ICAI
- International Financial Reporting Standards (IFRSs) issued by International Accounting Standards Board
- International Public Sector Accounting Standards (IPSASs) issued by International Public Sector Accounting Standards Board

Financial reporting framework - Attributes

Acceptable financial reporting frameworks normally exhibit the following attributes that result in information provided in financial statements that is useful for intended users

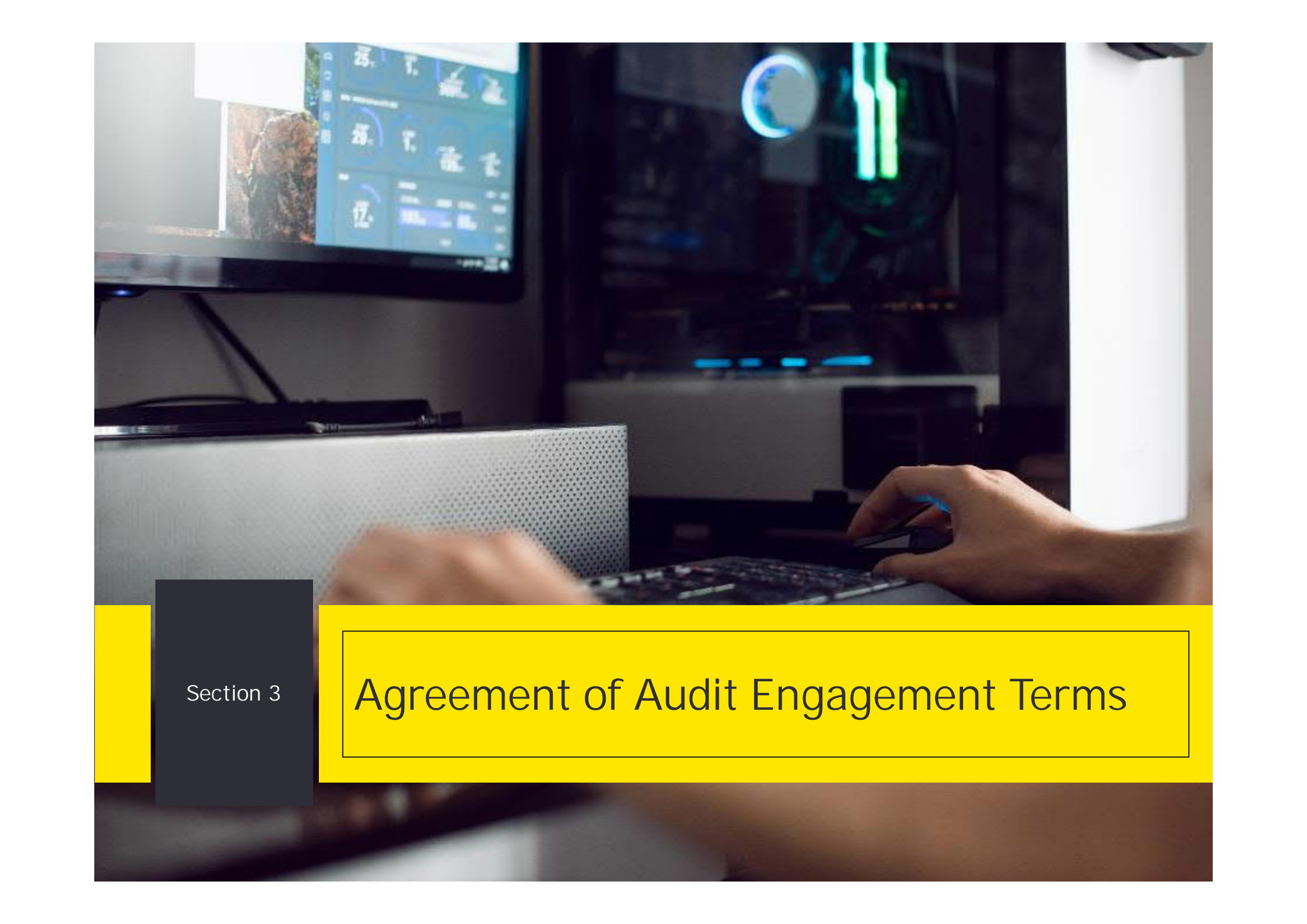
- Relevance
- Completeness
- Reliability
- Neutrality
- Understandability

Comparison of Accounting convention to an existing financial reporting framework

Pre-condition for an audit – Agreement of Management/TCWG

Condition 2: Obtain the agreement of management that it acknowledges and understands its responsibility (Premise):

- For the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation
- For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
- To provide the auditor with
 1. Access to all information to which management is aware that is relevant to the preparation of financial statements
 2. Additional information that the auditor may request from management for the purpose of audit
 3. Unrestricted access to persons within the entity from whom auditor determines it necessary to obtain evidences



Section 3

Agreement of Audit Engagement Terms

Agreement on Audit Engagement Terms

Agreement on terms of audit engagement shall be recorded in an audit engagement letter or suitable form of written agreement

Written agreement should include the following:

- a) The Objective and scope of the audit of the financial statements
- b) The responsibilities of the auditor
- c) The responsibilities of management
- d) Identification of the applicable financials reporting framework for the preparation of financial statement
- e) Reference to the expected form and content of any reports to be issued by the auditor and the circumstances in which a report may differ from its expected form and content

Audit Engagement Letter – Form and Content

- Elaboration of the scope of the audit, including reference to applicable legislation, regulations, SAs and ethical and other pronouncements of professional bodies
- The form of any other communication of results of audit engagement
- The requirement of auditor to communicate key audit matter in the audit report
- The fact that because of inherent limitations of audit, together with the inherent limitations of internal control, there is unavoidable risk that some material misstatement may not be detected
- The expectation that management will provide written representations
- The agreement of management to inform the auditor of facts that may affect the financials statements of which management may become aware during the period from the date of auditors report to the date of financials statements are issued
- The basis on which fees are computed and any billing arrangements
- The fact that audit process may be subjected to peer review

Audit Engagement Letter – Form and Content


Other relevant points that auditor may consider

- Arrangements concerning the involvement of other auditors and experts in some aspects of audit
- Arrangement concerning the involvement of internal auditor and other staff of the entity
- Arrangement to be made with the predecessor auditor, if any, in case of 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
- Any obligations to provide audit working papers to other parties

Audit Engagement Letter – Component Team

When auditor of a parent entity is also the auditor of a component, the factors that may influence the decision whether to send a separate audit engagement letter of the component include the following:

- Who appoints the component auditor
- Whether a separate auditor's report is to be issued on the component
- Legal requirement in relation to audit appointments
- Degree of ownership by parent and
- Degree of independence of the component management from the parent entity



Section 4

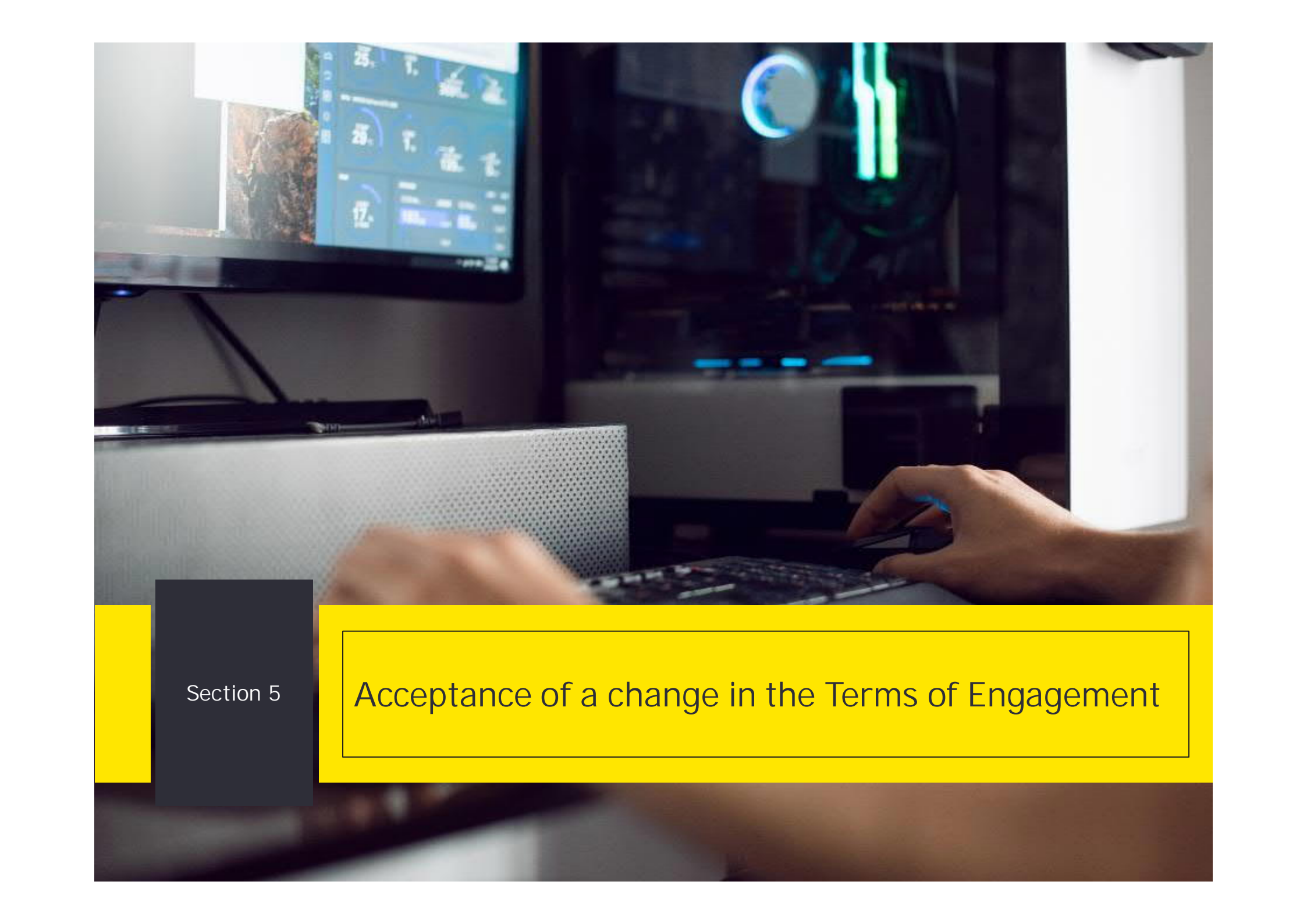
Recurring Audits

Recurring Audits

On recurring audits, the auditor shall assess whether circumstances require the terms of audit engagement to be revised and whether there is a need to remind the entity of the existing terms of an audit engagement

Circumstances which warrant revision in terms of 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 audit engagement
- A recent change of senior management
- A significant change in ownership
- A significant change in the 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 of the financial statement
- A change in other reporting requirements



Section 5

Acceptance of a change in the Terms of Engagement

Acceptance of a change in the Terms of Engagement

- The auditor shall not agree to a change in the terms of the audit engagement where there is no justification for doing so
- Any acceptance of an engagement that conveys a lower level of assurance should have reasonable justification for doing so
- If the terms of audit engagement are changes, the auditor and Management /TCWG shall agree on and record the new terms of the engagement
- If reasonable justification is not available or if auditor is not able to agree to the new terms and auditor is not permitted by management to continue the original audit engagement, the auditor shall
 1. Withdraw from the audit engagement where possible under applicable law or regulation and
 2. Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties such as TCWG, owners or regulators.

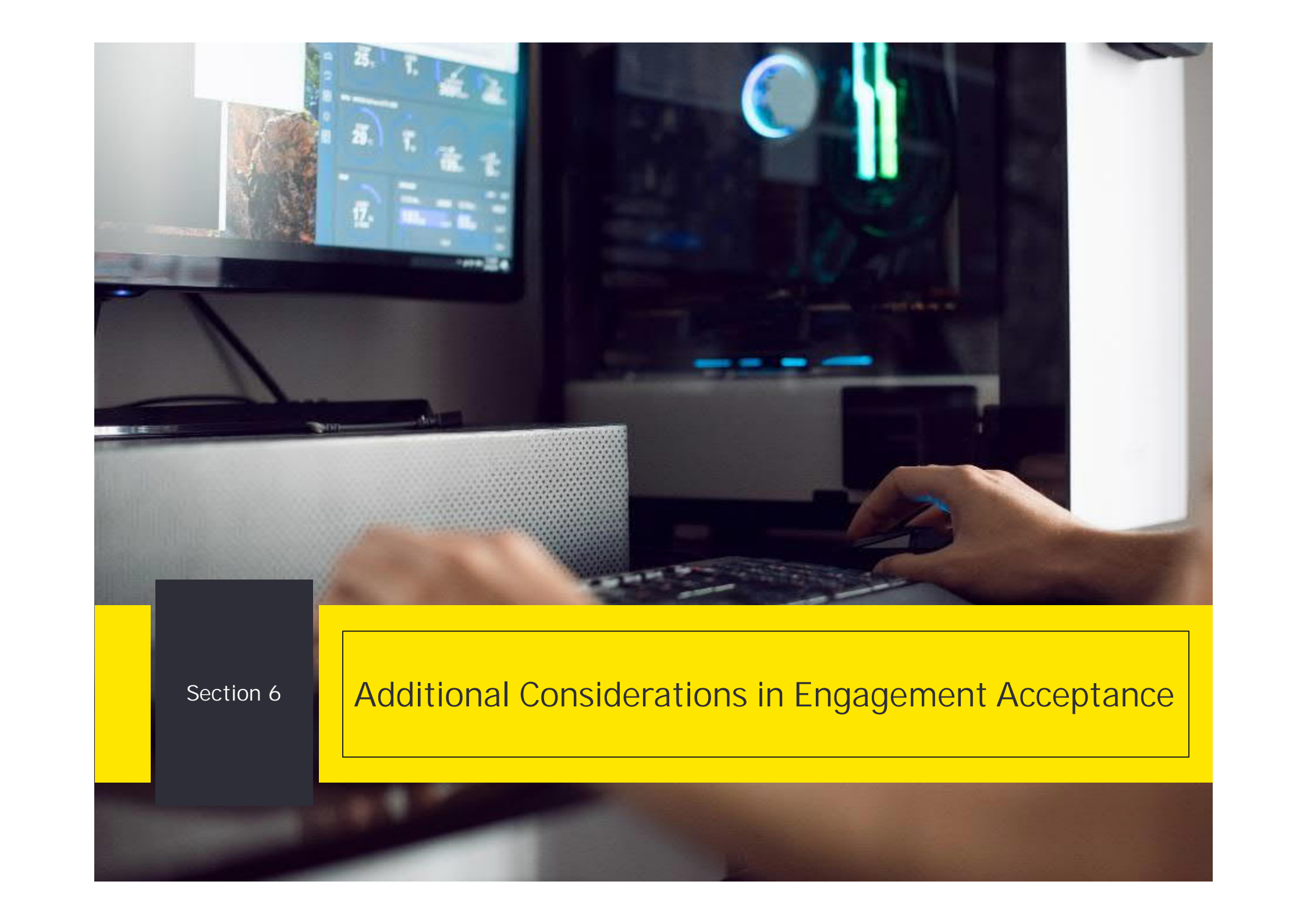
Acceptance of a change in the Terms of Engagement

If the auditor concludes that there is reasonable justification to change the audit engagement to a review or a related service, auditor may conclude:

- The audit work performed to the date of change may be relevant to the changed engagement
- The work required to be performed and the report to be issued would be those appropriate to the revised engagement

The report on the related service would not include reference to:

- The original audit engagement or
- Any procedure that may have been performed in the original audit engagement



Section 6

Additional Considerations in Engagement Acceptance

Additional Considerations in Engagement Acceptance

Financial Reporting Standard Supplemented by Law or Regulations

Determine whether there are any conflicts. Auditor shall agree to accept engagement when:

- The additional requirements can be met through additional disclosures
- The description of the applicable financial reporting framework in the financial statement can be amended

If neither of the above actions is possible, the auditor shall determine on reporting

Financial Reporting Standard Supplemented by Law or Regulations - Other Matters

Following conditions should be met when auditor determines that financial reporting framework prescribed by Laws and Regulation as unacceptable:

- Management agrees to provide additional disclosure in FS
- Audit Engagement Terms should reflect
 - a) The auditors report on Financial Statement will include Emphasis of Matter
 - b) Auditors report will not include phrases “presented fairly, in all material aspects” or “give a true and fair view” unless required by law

If neither of the above actions is possible, the auditor shall determine amend the terms Of audit engagement accordingly.

Auditor's Report Prescribed by Law or Regulations

When law prescribes the layout or wordings of the auditor's report which is significantly difference from requirements of the SA's, auditor shall evaluate

- Whether the users might understand the assurance obtained from the audit of financial statements
- Whether additional explanation in the auditor's report can mitigate possible Misunderstanding

Auditor shall not accept the audit engagement or when required by law or Regulations shall not include any reference Within the auditor's report to the audit have Been conducted in accordance with SAs



Thank You