

## SA 210: Agreeing the Terms of Audit Engagement

Objective of auditor is to accept or continue an audit engg. only when basis upon which it is to be performed has been agreed, through:

- A. Establishing whether preconditions for audit are present &
- B. Confirming that there is a common understanding b/w auditor & mgt &, where appropriate, TCWG of terms of the audit engg.

### Preconditions for Audit (RTP May'21)

In order to establish whether preconditions for audit are present, auditor shall:

- a) Determine whether FRF is acceptable &
- b) Obtain agreement of mgt that it acknowledges & understands its responsibility:
  - i) For preparation of FS as per AFRF
  - ii) For internal control as mgt considers necessary to enable preparation of FS free from material misstatement, whether due to fraud/error &
  - iii) To provide auditor with:
    - ✓ Access to all info. relevant to preparation of FS such as records, documentation & other matters
    - ✓ Additional info. that auditor may request from mgt for audit &
    - ✓ Unrestricted access to persons within entity from whom auditor determines necessary to obtain audit evidence.

### What if Pre-conditions not Present?

Discuss the matter with mgt. Unless required by L/R, auditor shall not accept proposed audit engg.

### Contents of Engagement Letter (Sep'24)

Agreed terms of shall be recorded in audit Engg. Letter (EL) or other suitable written agreement.

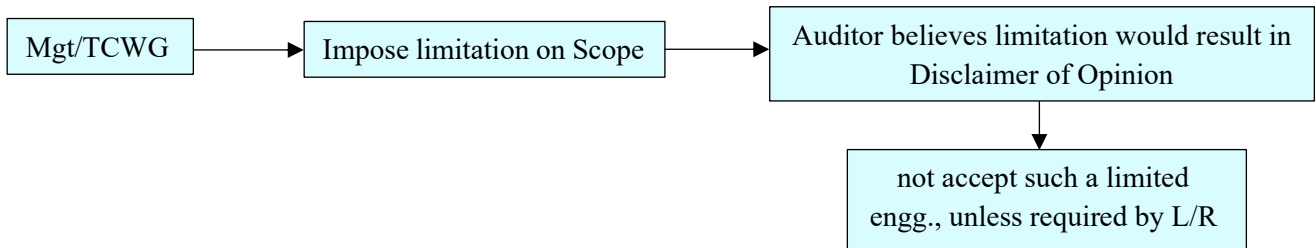
EL is sent by auditor to his client.

It shall include:

a) Objective & scope of audit of FS	b) Responsibilities of auditor
c) Responsibilities of mgt	d) Identification of AFRF for preparation of FS
e) Reference to expected form & content of reports to be issued by auditor & a statement that there may be circumstances in which report may differ from its expected form and content.	

Note: If law or regulation prescribes in sufficient detail terms of audit engg, auditor need not record them in written agreement, except for fact that such law or regulation applies & mgt acknowledges & understands its responsibilities.

### Limitation on Scope Prior to Audit Engagement Acceptance



### Acceptance of Change in Terms of Audit Engg.

Auditor shall **not agree** to change in terms of audit engg where there's **no reasonable justification**.

Request from Entity to change Terms of Audit Engg-When Reasonable Justification Exists?

Request from entity for auditor to change terms of audit engg may result from

- ✓ **change in circumstances** affecting need for service,
- ✓ **misunderstanding** as to nature of an audit as originally requested or
- ✓ **restriction on scope of audit engg**, whether imposed by mgt or caused by other circumstances.

Auditor considers **justification** given, particularly implications of a restriction on scope of audit engg.

**Change in circumstances** that affect entity's requirements or **misunderstanding** concerning nature of **service** originally requested may be considered a reasonable basis for requesting a change in audit engg.

In contrast, a **change** may not be considered **reasonable** if it appears that **change** relates to **info.** that's **incorrect, incomplete or unsatisfactory**.

An **eg.** might be where auditor **unable to obtain SAAE** regarding **receivables & entity asks for audit engg. to be changed to review engg.** to avoid a **qualified or disclaimer of opinion**.

What should auditor consider before agreeing to change audit engg to engg. providing lower level of assurance?

- ✓ If, prior to completing audit engg, auditor is requested to **change audit engg. to an engg. that conveys lower level of assurance**, determine whether there is **reasonable justification** for doing so.
- ✓ **Before agreeing to change an audit engg. to a review or a related service**, auditor may also need to **assess legal or contractual implications of change**.
- ✓ If auditor **concludes there's reasonable justification** to change audit engg. to a review or a related service, **audit work performed till date of change may be relevant to changed engg.**
- ✓ **However, work required to be performed & report to be issued would be those appropriate to revised engg.**



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In order to avoid confusing reader, report on related service would not include reference to:

- a. Original audit engg or
- b. Any procedures that may have been performed in original audit engg, except where audit engg. is changed to engg. to undertake agreed-upon procedures & thus reference to procedures performed is a normal part of report.

No reference to original

**Note:** If terms of audit engg are changed, auditor & mgt shall agree & record new terms of engg. in an engg letter or other suitable form of written agreement.

What if Auditor doesn't agree with change in terms of engg. & mgt doesn't permit to continue original audit engg?

Auditor shall:

- a) **Withdraw** from audit engg. where possible under applicable law or regulation &
- b) Determine whether there is any obligation, contractual or otherwise, to **report circumstances to other parties, such as TCWG, owners or regulators.**

Recurring Audit Engagements → New Engg Letter? (SM + RTP May'21)

Recurring audit is an audit which is performed by an auditor over years. Auditor shall assess whether circumstances require terms of audit engg. to be revised & whether there is a need to remind entity of existing terms of audit engg. Auditor may decide not to send new audit engg letter. each period.

Following factors make it appropriate to revise terms of audit engg. or remind entity of existing terms:

- ✓ Any indication that **entity misunderstands** objective & scope of audit.
- ✓ Any **revised or special terms** of audit engg.
- ✓ A **recent change of senior mgt.**
- ✓ 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 **FRF** adopted in preparation of F.S.
- ✓ A change in **other reporting requirements.**