

Compiled Auditing Standard

ASA 210
(March 2023)

Auditing Standard ASA 210

Agreeing the Terms of Audit Engagements

This compilation was prepared on 22 March 2023 taking into account amendments made by ASA 2011-1, ASA 2015-1, ASA 2017-1, ASA 2017-2, ASA 2020-1, ASA 2021-1 and ASA 2023-1.

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Prepared by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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CONTENTS

COMPILATION DETAILS

AUTHORITY STATEMENT

CONFORMITY WITH INTERNATIONAL STANDARDS ON AUDITING

	<i>Paragraphs</i>
Application	Aus 0.1-Aus 0.2
Operative Date	Aus 0.3
Introduction	
Scope of this Auditing Standard	1
Effective Date	2
Objective	3
Definition	4-5
Requirements	6
Limitation on Scope Prior to Audit Engagement Acceptance	7-8
Agreement on Audit Engagement Terms	9-12
Recurring Audits	13
Acceptance of a Change in the Terms of the Audit Engagement	14-17
Additional Considerations in Engagement Acceptance	18-21
Application and Other Explanatory Material	
Scope of this Auditing Standard	A1
Preconditions for an Audit	A2-Aus A21.1
Agreement on Audit Engagement Terms	A22-A29
Recurring Audits	A30
Acceptance of a Change in the Terms of the Audit Engagement	A31-A35
Additional Considerations in Engagement Acceptance	A36-A39
Appendix 1: Example of an Audit Engagement Letter	
Appendix 2: Determining the Acceptability of General Purpose Frameworks	

COMPILATION DETAILS

Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements* (as Amended)

This compilation takes into account amendments made up to and including 15 March 2023 and was prepared on 22 March 2023 by the Auditing and Assurance Standards Board (AUASB).

This compilation is not a separate Auditing Standard made by the AUASB. Instead, it is a representation of ASA 210 (October 2009) as amended by other Auditing Standards which are listed in the Table below.

Table of Standards

Standard	Date made	Operative Date
ASA 210 [A]	27 October 2009	Financial reporting periods commencing on or after 1 January 2010
ASA 2011-1 [B]	27 June 2011	Financial reporting periods commencing on or after 1 July 2011
ASA 2015-1 [C]	1 December 2015	Financial reporting periods ending on or after 15 December 2016
ASA 2017-1 [D]	30 May 2017	Financial reporting periods ending on or after 15 December 2016
ASA 2017-2 [E]	30 May 2017	Financial reporting periods commencing on or after 1 January 2018
ASA 2020-1 [F]	3 March 2020	Financial reporting periods commencing on or after 15 December 2021*
ASA 2021-1 [G]	10 March 2021	Financial reporting periods commencing on or after 15 December 2022
ASA 2023-1 [H]	15 March 2023	Financial reporting periods commencing on or after 1 January 2023

[A] Federal Register of Legislation – registration number F2009L04078, 9 November 2011

[B] Federal Register of Legislation – registration number F2011L01379, 30 June 2011

[C] Federal Register of Legislation – registration number F2015L02032, 16 December 2015

* Early adoption, in conjunction with ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, permitted.

Auditing Standard ASA 210
Agreeing the Terms of Audit Engagements

- [D] Federal Register of Legislation – registration number F2017L00693, 19 June 2017
- [E] Federal Register of Legislation – registration number F2017L01179, 13 September 2017
- [F] Federal Register of Legislation – registration number F2020L00252, 13 March 2020
- [G] Federal Register of Legislation – registration number F2021L00403, 1 April 2021
- [H] Federal Register of Legislation – registration number F2023L00295, 21 March 2023.

Table of Amendments

Paragraph affected	How affected	By ... [paragraph]
A4	Amended	ASA 2011-1 [16]
Appendix 2 Para. 4	Amended	ASA 2011-1 [17]
Appendix 1 First Paragraph	Amended	ASA 2011-1 [18]
Appendix 1 Paragraph headed AGM	Amended	ASA 2011-1 [19]
6(b)	Amended	ASA 2015-1 [26]
10(e)	Amended	ASA 2015-1 [27]
A25	Addition	ASA 2015-1 [28]
Renumbering of paragraphs after paragraph A25	Amended	ASA 2015-1[29]
New title inserted after paragraph A19	Addition	ASA 2015-1 [30]
New paragraph A20 inserted directly after existing paragraph A19	Addition	ASA 2015-1 [31]
Renumbering of paragraphs after paragraph A19	Amended	ASA 2015-1 [32]
Appendix 1	Amended	ASA 2015-1 [22-25]
Paragraph A11	Amended	ASA 2015-1 [19]
Paragraph A24	Amended	ASA 2015-1 [20]
Footnote 19	Addition	ASA 2015-1 [21]
Appendix 1 – bullet point Aus (iv) – renumbered to (d)	Amended	ASA 2017-1 [8]
Appendix 1 – Aus (d) (i)	Amended	ASA 2017-1 [8]
Footnote 11	Amended	ASA 2017-2 [10]
Footnote 14	Amended	ASA 2017-2 [11]

Auditing Standard ASA 210
Agreeing the Terms of Audit Engagements

Paragraph affected	How affected	By ... [paragraph]
Footnote 15 / Appendix 1	Amended	ASA 2017-2 [12]
Paragraph A26	Amended	ASA 2017-2 [13]
A16 Footnote 14	Amended	ASA 2020-1 [29]
A18 and Footnote 15	Amended	ASA 2020-1 [30]
1 Footnote 1	Amended	ASA 2021-1 [30]
A1	Amended	ASA 2021-1 [31]
A1 Footnote 8	Amended	ASA 2021-1 [32]
Appendix 1	Amended	ASA 2023-1 [17]

AUTHORITY STATEMENT

Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements* (as amended to 15 March 2023) is set out in paragraphs Aus 0.1 to A39 and Appendices 1 and 2.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to AUASB Standards*, which sets out how AUASB Standards are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 210 *Agreeing the Terms of Audit Engagements* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

The following application and other explanatory material is additional to ASA 210:

- Section 312 of the *Corporations Act 2001* (the Act) requires an officer of the entity to allow the auditor access to the books of the entity and give any information, explanation or assistance required under section 310 of the Act. A management-imposed restriction of scope may breach section 312 and trigger the need for a section 311 notice to be provided by the auditor to the Australian Securities and Investments Commission (ASIC). (Ref: Para. Aus A21.1)

This Auditing Standard incorporates terminology and definitions used in Australia

The equivalent requirements and related application and other explanatory material included in ISA 210 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISA 210.

AUDITING STANDARD ASA 210

The Auditing and Assurance Standards Board (AUASB) made Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*, on 27 October 2009.

This compiled version of ASA 210 incorporates subsequent amendments contained in other Auditing Standards made by the AUASB up to and including 15 March 2023 (see Compilation Details).

AUDITING STANDARD ASA 210

Agreeing the Terms of Audit Engagements

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2010. [Note: For operative dates of paragraphs changed or added by an Amending Standard, see Compilation Details.]

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with governance, are present. ASA 220¹ deals with those aspects of engagement acceptance that are within the control of the auditor. (Ref: Para. A1)

Effective Date

2. [Deleted by the AUASB. Refer Aus 0.3]

Objective

3. 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:

¹ See ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

- (a) Establishing whether the preconditions for an audit are present; and
- (b) Confirming that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement.

Definition

4. For the purposes of this Auditing Standard, the following term has the meaning attributed below:

Preconditions for an audit means the use by management of an acceptable financial reporting framework in the preparation of the financial report and the agreement of management and, where appropriate, those charged with governance to the premise² on which an audit is conducted.

5. For the purposes of this Auditing Standard, references to “management” should be read hereafter as “management and, where appropriate, those charged with governance.”

Requirements

6. In order to establish whether the preconditions for an audit are present, the auditor shall:
- (a) Determine whether the financial reporting framework to be applied in the preparation of the financial report is acceptable; and (Ref: Para. A2-A10)
 - (b) Obtain the agreement of management that it acknowledges and understands its responsibility: (Ref: Para. A11-A14, A19, A21-Aus A21.1)
 - (i) For the preparation of the financial report in accordance with the applicable financial reporting framework, including where relevant their fair presentation; (Ref: Para. A15)
 - (ii) For such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error; and (Ref: Para. A16-A19)
 - (iii) To provide the auditor with:
 - a. Access to all information of which management is aware that is relevant to the preparation of the financial report such as records, documentation and other matters;
 - b. Additional information that the auditor may request from management for the purpose of the audit; and (Ref: Para. A20)
 - c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Limitation on Scope Prior to Audit Engagement Acceptance

7. 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 report, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

² See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 13.

Other Factors Affecting Audit Engagement Acceptance

8. If the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement:
 - (a) If the auditor has determined that the financial reporting framework to be applied in the preparation of the financial report is unacceptable, except as provided in paragraph 19 of this Auditing Standard; or
 - (b) If the agreement referred to in paragraph 6(b) of this Auditing Standard has not been obtained.

Agreement on Audit Engagement Terms

9. The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate. (Ref: Para. A22)
10. Subject to paragraph 11 of this Auditing Standard, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A23-A26)
 - (a) The objective and scope of the audit of the financial report;
 - (b) The responsibilities of the auditor;
 - (c) The responsibilities of management;
 - (d) Identification of the applicable financial reporting framework for the preparation of the financial report; and
 - (e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content. (Ref: Para. A25)
11. If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10 of this Auditing Standard, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b) of this Auditing Standard. (Ref: Para. A23, A27-A29)
12. If law or regulation prescribes responsibilities of management similar to those described in paragraph 6(b) of this Auditing Standard, the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgement, are equivalent in effect to those set out in that paragraph. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the written agreement. For those responsibilities that are not prescribed by law or regulation such that their effect is equivalent, the written agreement shall use the description in paragraph 6(b) of this Auditing Standard. (Ref: Para. A27)

Recurring Audits

13. On recurring audits, the auditor shall assess 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. A30)

Acceptance of a Change in the Terms of the Audit Engagement

14. 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. A31-A33)

15. If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so. (Ref: Para. A34-A35)
16. If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.
17. If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:
 - (a) Withdraw from the audit engagement where possible under applicable law or regulation; and
 - (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

Additional Considerations in Engagement Acceptance

Financial Reporting Standards Supplemented by Law or Regulation

18. If financial reporting standards established by an authorised or recognised standards setting organisation 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 the nature of the additional requirements and shall agree whether:
 - (a) The additional requirements can be met through additional disclosures in the financial report; or
 - (b) The description of the applicable financial reporting framework in the financial report can be amended accordingly.

If neither of the above actions is possible, the auditor shall determine whether it will be necessary to modify the auditor's opinion in accordance with ASA 705.³ (Ref: Para. A36)

Financial Reporting Framework Prescribed by Law or Regulation—Other Matters Affecting Acceptance

19. If the auditor has determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor shall accept the audit engagement only if the following conditions are present: (Ref: Para. A37)
 - (a) Management agrees to provide additional disclosures in the financial report required to avoid the financial report being misleading; and
 - (b) It is recognised in the terms of the audit engagement that:
 - (i) The auditor's report on the financial report will incorporate an Emphasis of Matter paragraph, drawing users' attention to the additional disclosures, in accordance with ASA 706;⁴ and
 - (ii) Unless the auditor is required by law or regulation to express the auditor's opinion on the financial report by using the phrases "present fairly, in all

³ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

⁴ See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

Auditing Standard ASA 210
Agreeing the Terms of Audit Engagements

material respects,” or “give a true and fair view” in accordance with the applicable financial reporting framework, the auditor’s opinion on the financial report will not include such phrases.

20. If the conditions outlined in paragraph 19 of this Auditing Standard are not present and the auditor is required by law or regulation to undertake the audit engagement, the auditor shall:
- (a) Evaluate the effect of the misleading nature of the financial report on the auditor’s report; and
 - (b) Include appropriate reference to this matter in the terms of the audit engagement.

Auditor’s Report Prescribed by Law or Regulation

21. In some cases, law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor’s report in a form or in terms that are significantly different from the requirements of the Australian Auditing Standards. In these circumstances, the auditor shall evaluate:
- (a) Whether users might misunderstand the assurance obtained from the audit of the financial report and, if so,
 - (b) Whether additional explanation in the auditor’s report can mitigate possible misunderstanding.⁵

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 required by law or regulation to do so. An audit conducted in accordance with such law or regulation does not comply with Australian Auditing Standards. Accordingly, the auditor shall not include any reference within the auditor’s report to the audit having been conducted in accordance with Australian Auditing Standards.⁶ (Ref: Para. A38-A39)

* * *

⁵ See ASA 706.

⁶ See also ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraph 43.

Application and Other Explanatory Material

Scope of this Auditing Standard (Ref: Para. 1)

- A1. ASQM 1⁷ deals with the firm's responsibilities regarding the acceptance and continuance of client relationships and specific engagements. The auditor's responsibilities in respect of relevant ethical requirements, including those related to independence, in the context of the acceptance of an audit engagement and insofar as they are within the control of the auditor are dealt with in ASA 220.⁸ This Auditing Standard deals with those matters (or preconditions) that are within the control of the entity and upon which it is necessary for the auditor and the entity's management to agree.

Preconditions for an Audit

The Financial Reporting Framework (Ref: Para. 6(a))

- A2. 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.⁹ Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Suitable criteria enable reasonably consistent evaluation or measurement of a subject matter within the context of professional judgement. For purposes of the Australian Auditing Standards, the applicable financial reporting framework provides the criteria the auditor uses to audit the financial report, including where relevant its fair presentation.
- A3. Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial report and the auditor does not have suitable criteria for auditing the financial report. In many cases, the auditor may presume that the applicable financial reporting framework is acceptable, as described in paragraphs A8-A9.

Determining the Acceptability of the Financial Reporting Framework

- A4. Factors that are relevant to the auditor's determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial report include:
- The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not-for-profit organisation);
 - The purpose of the financial report (for example, whether it is 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 law or regulation prescribes the applicable financial reporting framework.
- A5. Many users of financial reports are not in a position to demand financial reports 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 reports prepared 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 reports.

⁷ See ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*, paragraph 30.

⁸ See ASA 220, paragraphs 16-21.

⁹ See *Framework for Assurance Engagements*.

- A6. In some cases, the financial report will be prepared in accordance with a financial reporting framework designed to meet the financial information needs of specific users. Such financial reports are referred to as special purpose financial reports. The financial information needs of the intended users will determine the applicable financial reporting framework in these circumstances. ASA 800 discusses the acceptability of financial reporting frameworks designed to meet the financial information needs of specific users.¹⁰
- A7. 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 19-20 apply. When use of that framework is not prescribed by law or regulation, management may decide to adopt another framework that is acceptable. When management does so, as required by paragraph 16, new terms of the audit engagement are agreed to reflect the change in the framework as the previously agreed terms will no longer be accurate.

General purpose frameworks

- A8. At present, there is no objective and authoritative basis that has been generally recognised globally for judging the acceptability of general purpose frameworks. In the absence of such a basis, financial reporting standards established by organisations that are authorised or recognised to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial reports prepared by such entities, provided the organisations 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;
- International Public Sector Accounting Standards (IPSASs) promulgated by the International Public Sector Accounting Standards Board; and
- Accounting principles promulgated by an authorised or recognised standards setting organisation in a particular jurisdiction,* provided the organisation follows an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.

These financial reporting standards are often identified as the applicable financial reporting framework in law or regulation governing the preparation of general purpose financial reports.

Financial reporting frameworks prescribed by law or regulation

- A9. In accordance with paragraph 6(a), the auditor is required to determine whether the financial reporting framework, to be applied in the preparation of the financial report, is acceptable. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used in the preparation of a general purpose financial report for certain types of entities. In the absence of indications to the contrary, such a financial reporting framework is presumed to be acceptable for a general purpose financial report prepared by such entities. In the event that the framework is not considered to be acceptable, paragraphs 19-20 apply.

Jurisdictions that do not have standards setting organisations or prescribed financial reporting frameworks

- A10. When an entity is registered or operating in a jurisdiction that does not have an authorised or recognised standards setting organisation, or where use of the financial reporting framework is

¹⁰ See ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*, paragraph 8.

* The Australian Accounting Standards Board (AASB) sets accounting standards in Australia.

not prescribed by law or regulation, management identifies a financial reporting framework to be applied in the preparation of the financial report. Appendix 2 contains guidance on determining the acceptability of financial reporting frameworks in such circumstances.

Agreement of the Responsibilities of Management (Ref: Para. 6(b))

- A11. An audit in accordance with Australian Auditing Standards is conducted on the premise that management has acknowledged and understands that it has the responsibilities set out in paragraph 6(b).¹¹ In certain jurisdictions, such responsibilities may be specified in law or regulation. In others, there may be little or no legal or regulatory definition of such responsibilities. Australian Auditing Standards do not override law or regulation in such matters. However, the concept of an independent audit requires that the auditor's role does not involve taking responsibility for the preparation of the financial report or for the entity's related internal control, and that the auditor has a reasonable expectation of obtaining the information necessary for the audit (including information obtained from outside of the general and subsidiary ledgers) in so far as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit. To avoid misunderstanding, agreement is reached with management that it acknowledges and understands that it has such responsibilities as part of agreeing and recording the terms of the audit engagement in paragraphs 9-12.
- A12. The way in which the responsibilities for financial reporting are divided between management and those charged with governance will vary according to the resources and structure of the entity and any relevant law or regulation, and the respective roles of management and those charged with governance within the entity. In most cases, management is responsible for execution while those charged with governance have oversight of management. In some cases, those charged with governance will have, or will assume, responsibility for approving the financial report or monitoring the entity's internal control related to financial reporting. In larger or publicly-listed entities, a subgroup of those charged with governance, such as an audit committee, may be charged with certain oversight responsibilities.
- A13. ASA 580 requires the auditor to request management to provide written representations that it has fulfilled certain of its responsibilities.¹² It may therefore be appropriate to make management aware that receipt of such written representations will be expected, together with written representations required by other Australian Auditing Standards and, where necessary, written representations to support other audit evidence relevant to the financial report or one or more specific assertions in the financial report.
- A14. Where management will not acknowledge its responsibilities, or agree to provide the written representations, the auditor will be unable to obtain sufficient appropriate audit evidence.¹³ In such circumstances, it would not be appropriate for the auditor to accept the audit engagement, unless law or regulation requires the auditor to do so. In cases where the auditor is required to accept the audit engagement, the auditor may need to explain to management the importance of these matters, and the implications for the auditor's report.

Preparation of the Financial Report (Ref: Para. 6(b)(i))

- A15. Most financial reporting frameworks include requirements relating to the presentation of the financial report; for such frameworks, preparation of the financial report in accordance with the financial reporting framework includes presentation. In the case of a fair presentation framework, the importance of the reporting objective of fair presentation is such that the premise agreed with management includes specific reference to fair presentation, or to the responsibility to ensure that the financial report will "give a true and fair view" in accordance with the financial reporting framework.

¹¹ See ASA 200, paragraph A4.

¹² See ASA 580 *Written Representations*, paragraphs 10-11.

¹³ See ASA 580, paragraphs A26-Aus A26.1.

Internal Control (Ref: Para. 6(b)(ii))

- A16. Management maintains such internal control as it determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. Internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity's financial reporting objectives due to the inherent limitations of internal control.¹⁴
- A17. An independent audit conducted in accordance with the Australian Auditing Standards does not act as a substitute for the maintenance of internal control necessary for the preparation of the financial report by management. Accordingly, the auditor is required to obtain the agreement of management that it acknowledges and understands its responsibility for internal control. However, the agreement required by paragraph 6(b)(ii) does not imply that the auditor will find that internal control maintained by management has achieved its purpose or will be free of deficiencies.
- A18. It is for management to determine what internal control is necessary to enable the preparation of the financial report. The term "internal control" encompasses a wide range of activities within components of the system of internal control that may be described as the control environment; the entity's risk assessment process; the entity's process to monitor the system of internal control, the information system and communication; and control activities. This division, however, does not necessarily reflect how a particular entity may design, implement and maintain its internal control, or how it may classify any particular component.¹⁵ An entity's internal control (in particular, its accounting books and records, or accounting systems) will reflect the needs of management, the complexity of the business, the nature of the risks to which the entity is subject, and relevant laws or regulation.
- A19. In some jurisdictions, law or regulation may refer to the responsibility of management for the adequacy of accounting books and records, or accounting systems. In some cases, general practice may assume a distinction between accounting books and records or accounting systems on the one hand, and internal control or controls on the other. As accounting books and records, or accounting systems, are an integral part of internal control as referred to in paragraph A18, no specific reference is made to them in paragraph 6(b)(ii) for the description of the responsibility of management. To avoid misunderstanding, it may be appropriate for the auditor to explain to management the scope of this responsibility.

Additional Information (Ref: Para 6(b)(iii)b)

- A20. Additional information that the auditor may request from management for the purpose of the audit may include when applicable, matters related to other information in accordance with ASA 720. When the auditor expects to obtain other information after the date of the auditor's report, the terms of the audit engagement may also acknowledge the auditor's responsibilities relating to such other information including, if applicable, the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor's report.

Considerations Relevant to Smaller Entities (Ref: Para. 6(b))

- A21. One of the purposes of agreeing the terms of the audit engagement is to avoid misunderstanding about the respective responsibilities of management and the auditor. For example, when a third party has assisted with the preparation of the financial report, it may be useful to remind management that the preparation of the financial report in accordance with the applicable financial reporting framework remains its responsibility.

¹⁴ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, Appendix 3 paragraph 22.

¹⁵ See ASA 315, paragraph A91 and Appendix 3.

Management-Imposed Limitation of Scope (Ref: Para. 6(b))

Aus A21.1 Section 312 of the *Corporations Act 2001* (the Act) requires an officer of the entity to allow the auditor access to the books of the entity and give any information, explanation or assistance required under section 310 of the Act. A management-imposed restriction of scope may breach section 312 and trigger the need for a section 311 notice to be provided by the auditor to the Australian Securities and Investments Commission (ASIC).

Agreement on Audit Engagement Terms

Agreeing the Terms of the Audit Engagement (Ref: Para. 9)

A22. The roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance structure of the entity and relevant law or regulation.

*Audit Engagement Letter or Other Form of Written Agreement*¹⁶ (Ref: Para. 10-11)

A23. It is in the interests of both the entity and the auditor, that the auditor sends an audit engagement letter before the commencement of the audit to help avoid misunderstandings with respect to the audit. In some countries, however, the objective and scope of an audit and the responsibilities of management and of the auditor may be sufficiently established by law, that is, they prescribe the matters described in paragraph 10. Although in these circumstances paragraph 11 permits the auditor to include in the engagement letter only reference to the fact that relevant law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b), the auditor may nevertheless consider it appropriate to include the matters described in paragraph 10 in an engagement letter for the information of management.

Form and Content of the Audit Engagement Letter

A24. 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 ASA 200.¹⁷ Paragraphs 6(b) and 12 deal with the description of the responsibilities of management. In addition to including the matters required by paragraph 10, an audit engagement letter may make reference to, for example:

- Elaboration of the scope of the audit, including reference to applicable legislation, regulations, Australian Auditing Standards, 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 requirement for the auditor to communicate key audit matters in the auditor's report in accordance with ASA 701.¹⁸
- The fact that because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.
- Arrangements regarding the planning and performance of the audit, including the composition of the audit team.

¹⁶ 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.

¹⁷ See ASA 200, paragraphs 3-9.

¹⁸ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

- The expectation that management will provide written representations (see also paragraph A13).
- The expectation that management will provide access to all information of which management is aware that is relevant to the preparation of the financial report, including an expectation that management will provide access to information relevant to disclosures.
- The agreement of management to make available to the auditor the draft financial report, including all information relevant to their preparation, whether obtained from within or outside of the general and subsidiary ledgers (including all information relevant to the preparation of disclosures), and the other information,¹⁹ if any, in time to allow the auditor to complete the audit in accordance with the proposed timetable.
- The agreement of management to inform the auditor of facts that may affect the financial report, of which management may become aware during the period from the date of the auditor's report to the date the financial report is issued.
- The basis on which fees are computed and any billing arrangements.
- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.

A25. When the auditor is not required to communicate key audit matters, it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so. (Ref: Para. 10(e))

A26. When relevant, the following points could also be made in the audit engagement letter:

- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- Arrangements concerning the involvement of internal auditors and other staff of the entity.
- Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
- A reference to, and description of, the auditor's responsibilities under law, regulation or relevant ethical requirements that address reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
- 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.

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

¹⁹ As defined in ASA 720 *The Auditor's Responsibilities Relating to Other Information*.

Audits of Components

- A27. When the 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 to the component include the following:
- Who appoints the component auditor;
 - Whether a separate auditor's report is to be issued on the component;
 - Legal requirements in relation to audit appointments;
 - Degree of ownership by parent; and
 - Degree of independence of the component management from the parent entity.

Responsibilities of Management Prescribed by Law or Regulation (Ref: Para. 11-12)

- A28. If, in the circumstances described in paragraphs A23 and A24, the auditor concludes that it is not necessary to record certain terms of the audit engagement in an audit engagement letter, the auditor is still required by paragraph 11 to seek the written agreement from management that it acknowledges and understands that it has the responsibilities set out in paragraph 6(b). However, in accordance with paragraph 12, such written agreement may use 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 6(b). The accounting profession, audit standards setter, or audit regulator in a jurisdiction may have provided guidance as to whether the description in law or regulation is equivalent.

Considerations specific to public sector entities

- A29. 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 a fuller audit engagement letter than permitted by paragraph 11.

Recurring Audits (Ref: Para. 13)

- A30. The auditor may decide not to send a new audit 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.
 - 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 of the financial report.

* See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

- 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. 14)

- A31. A request from the entity for the auditor to change the terms of 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 caused by other circumstances. The auditor, as required by paragraph 14, considers the justification given for the request, particularly the implications of a restriction on the scope of the audit engagement.
- A32. 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.
- A33. 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 opinion or a disclaimer of opinion.

Request to Change to a Review or a Related Service (Ref: Para. 15)

- A34. 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 Australian Auditing Standards may need to assess, in addition to the matters referred to in paragraphs A31-A33 above, any legal or contractual implications of the change.
- A35. 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

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

- A36. In some jurisdictions, law or regulation may supplement the financial reporting standards established by an authorised or recognised standards setting organisation with additional requirements relating to the preparation of the financial report. In those jurisdictions, the applicable financial reporting framework for the purposes of applying the Australian Auditing Standards encompasses both the identified financial reporting framework and such additional requirements provided they do not conflict with the identified financial reporting framework. This may, for example, be the case when law or regulation prescribes disclosures in addition

Auditing Standard ASA 210
Agreeing the Terms of Audit Engagements

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.²⁰

Financial Reporting Framework Prescribed by Law or Regulation—Other Matters Affecting Acceptance (Ref: Para. 19)

- A37. Law or regulation may prescribe that the wording of the auditor’s opinion use the phrases “present fairly, in all material respects” or “give a true and fair view” in a case where the auditor concludes that the applicable financial reporting framework prescribed by law or regulation would otherwise have been unacceptable. In this case, the terms of the prescribed wording of the auditor’s report are significantly different from the requirements of Australian Auditing Standards (see paragraph 21).

Auditor’s Report Prescribed by Law or Regulation (Ref: Para. 21)

- A38. Australian Auditing Standards require that the auditor shall not represent compliance with Australian Auditing Standards unless the auditor has complied with all of the Australian Auditing Standards relevant to the audit.²¹ When law or regulation prescribes the layout or wording of the auditor’s report in a form or in terms that are significantly different from the requirements of Australian Auditing Standards 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 Australian Auditing Standards. The auditor is, however, encouraged to apply Australian Auditing Standards, including the Australian Auditing Standards 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 Australian Auditing Standards.

Considerations Specific to Public Sector Entities

- A39. 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.

²⁰ See ASA 700, paragraph 15, which includes a requirement regarding the evaluation of whether the financial report adequately refers to or describes the applicable financial reporting framework.

²¹ See ASA 200, paragraph 20.

Example of an Audit Engagement Letter

The following is an example of an audit engagement letter for an audit of a general purpose financial report prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*. 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 Auditing Standard. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of a financial report for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 13 of this Auditing Standard). It may be appropriate to seek legal advice that any proposed letter is suitable.

To the appropriate representative of management or those charged with governance of ABC Company:²²

[The objective and scope of the audit]

You²³ have requested that we audit the financial report of ABC Company which comprises the statement of financial position as at 30 June 20X1 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements including material accounting policy information, and the directors' declaration. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

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

[The responsibilities of the auditor]

We will conduct our audit in accordance with Australian Auditing Standards. Those standards require that we comply with ethical requirements. As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

²² The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see paragraph A22. For an audit under the *Corporations Act 2001*, the appropriate persons are the Directors.

²³ Throughout this letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.

opinion on the effectiveness of the entity's internal control.²⁴ However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial report that we have identified during the audit.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

[The responsibilities of management and identification of the applicable financial reporting framework (for purposes of this example, it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 6(b) of this Auditing Standard are therefore used).]

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance]²⁵ acknowledge and understand that they have responsibility:

- (a) For the preparation of the financial report that gives a true and fair view in accordance with the *Corporations Act 2001* and Australian Accounting Standards;²⁶
- (b) For such internal control as [management] determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error; and
- (c) To provide us with:²⁷
 - (i) Access to all information of which the directors and management are aware that is relevant to the preparation of the financial report such as records, documentation and other matters;
 - (ii) Additional information that we may request from the directors and management for the purpose of the audit;
 - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence; and

Aus (d) [Where applicable, in respect of other information:

²⁴ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial report.

²⁵ Use terminology as appropriate in the circumstances. For an audit under the *Corporations Act 2001*, the appropriate terminology is "the Directors".

²⁶ Or, for financial reports not prepared under the *Corporations Act 2001*, "For the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards."

²⁷ See paragraph A24 for examples of other matters relating to management's responsibilities that may be included.

- (i) You will inform us of all the documents that you expect to issue that may comprise other information;

If the other information is to be provided prior to the auditor's report date:

[The financial report and any other information you may obtain prior to the date of your auditor's report will be consistent with one another, and the other information will not contain any material misstatements;] *or*

If the other information will not be provided prior to the auditor's report date:

[With regard to any other information that you may not obtain prior to the date of the auditor's report, that we intend to prepare and issue will be provided to you by [insert date] to enable you to complete your required procedures.]

As part of our audit process, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[*Other relevant information*]

[*Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.*]

[*Reporting*]

[*Insert appropriate reference to the expected form and content of the auditor's report, including, if applicable, the reporting on other information in accordance with ASA 720.*]

The form and content of our report may need to be amended in the light of our audit findings.

Other Matters under the *Corporations Act 2001*

Independence

We confirm that, to the best of our knowledge and belief, we currently meet the independence requirements of the *Corporations Act 2001* in relation to the audit of the financial report. In conducting our audit of the financial report, should we become aware that we have contravened the independence requirements of the *Corporations Act 2001*, we shall notify you on a timely basis. As part of our audit process, we shall also provide you with a written independence declaration as required by the *Corporations Act 2001*.

The *Corporations Act 2001* includes specific restrictions on the employment relationships that can exist between the audited entity and its auditors. To assist us in meeting the independence requirements of the *Corporations Act 2001*, and to the extent permitted by law and regulation, we request you discuss with us:

- the provision of services offered to you by [insert firm name] prior to engaging or accepting the service; and
- the prospective employment opportunities of any current or former partner or professional employee of [insert firm name] prior to the commencement of formal employment discussions with the current or former partner or professional employee.

Auditing Standard ASA 210
Agreeing the Terms of Audit Engagements

Annual General Meetings

The *Corporations Act 2001* provides that shareholders can submit written questions to the auditor before an Annual General Meeting provided that they relate to the auditor's report or the conduct of the audit. To assist us in meeting this requirement in the *Corporations Act 2001* relating to Annual General Meetings, we request you provide to us written questions submitted to you by shareholders as soon as practicable after the question(s) is received and no later than five business days before the Annual General Meeting, regardless of whether you believe them to be irrelevant. [Applicable only to listed entities]

Presentation of Audited Financial Report on the Internet

It is our understanding that ABC Company intends to publish a hard copy of the audited financial report and auditor's report for members, and to electronically present the audited financial report and auditor's report on its internet web site. When information is presented electronically on a web site, the security and controls over information on the web site should be addressed by the entity to maintain the integrity of the data presented. The examination of the controls over the electronic presentation of audited financial information on the entity's web site is beyond the scope of the audit of the financial report. Responsibility for the electronic presentation of the financial report on the entity's web site is that of the governing body of the entity.

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 report including our respective responsibilities.

Yours faithfully

.....

Partner

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....

Name and Title

Date

Determining the Acceptability of General Purpose Frameworks

Jurisdictions that Do Not Have Authorised or Recognised Standards Setting Organisations or Financial Reporting Frameworks Prescribed by Law or Regulation

1. As explained in paragraph A10, when an entity is registered or operating in a jurisdiction that does not have an authorised or recognised standards setting organisation, or where use of the financial reporting framework is not prescribed by law or regulation, management identifies an applicable financial reporting framework. Practice in such jurisdictions is often to use the financial reporting standards established by one of the organisations described in paragraph A8.
2. Alternatively, there may be established accounting conventions in a particular jurisdiction that are generally recognised as the financial reporting framework for a general purpose financial report prepared by certain specified entities operating in that jurisdiction. When such a financial reporting framework is adopted, the auditor is required by paragraph 6(a) to determine whether the accounting conventions collectively can be considered to constitute an acceptable financial reporting framework for a general purpose financial report. 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 reports that is useful to the intended users:
 - (a) Relevance, in that the information provided in the financial report is relevant to the nature of the entity and the purpose of the financial report. For example, in the case of a business enterprise that prepares a general purpose financial report, 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 report are not omitted.
 - (c) Reliability, in that the information provided in the financial report:
 - (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 report that is free from bias.
 - (e) Understandability, in that the information in the financial report 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 authorised or recognised standards setting organisation. When the auditor makes such a comparison and differences are identified, the decision as to whether the accounting conventions adopted in the preparation of the financial report 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 report, could result in a financial report that is misleading.
5. A conglomeration of accounting conventions devised to suit individual preferences is not an acceptable financial reporting framework for a general purpose financial report. 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.