

SYNOPSIS

SA 210 – Agreeing the Terms of Audit Engagements – *Effective since April 1, 2010*

The SA deals with the auditor's responsibilities in agreeing, with the management, the terms of the audit engagement. As certain preconditions for an audit, responsibility for which rests with the auditee management, are present, this deals with agreeing to terms in respect of those engagements that are under the control of the auditor.

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

- (a) establishing whether the pre-conditions for an audit are present; and
 - (b) confirming that there is a common understanding between the auditor and the (auditee) management.
- I. The SA, in order to establish whether the pre-conditions are present, requires the auditor to determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptance, and to obtain the agreement of the management to the effect that it understands and acknowledges its responsibility in relation to —
- (a) preparation of the financial statements in accordance with the applicable reporting framework, including (where relevant) their fair presentation
 - (b) 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
 - (c) providing the auditor with
 - Access to all information – such as related records, documents and other matters
 - Additional related information that may be requested by the auditor
 - Unrestricted access to persons within the entity whom the auditor determines necessary to obtain audit evidence
- II. In case where the management impose a limitation on the scope of the auditor's work in the terms of engagement, and the auditor believes such limitation will result in his disclaiming an opinion on the financial statement, the SA requires the auditor to not accept such a limited engagement, unless required by law to do so.
- III. Similarly, where, prior to obtaining the above-stated agreement, the auditor determines that the reporting framework to be applied in the preparation of

the financial statements is unacceptable, the SA requires him not to accept the engagement. On the contrary, however, where said reporting framework is prescribed by law, the auditor may accept the engagement if —

- the Management agrees to provide additional disclosures in the financial statements required to avoid such statements being misleading, and
- it is recognized in the terms of engagement that –
- the auditor’s report on the financial statements will incorporate an
 - Emphasis of Matter paragraph, drawing users’ attention to the additional disclosures [in accord with SA 706] and
 - Unless the auditor is required by law to express his opinion by using the phrases, e.g. “give a true and fair view” in accordance with the applicable financial reporting framework, his opinion will not include such a phrase.

Needless to mention, the agreed terms of audit engagement will be recorded in an audit engagement letter or other suitable form of written agreement.

- IV. Further, in the case of recurring audits, the SA requires the auditor to assess whether circumstances require any revision in the terms of engagement and whether the management needs to be reminded of the extant terms.
- V. Another point that one may come across in determining whether to accept the engagement or not is that in some cases, the law applicable to the auditee entity prescribe the layout or wording of the auditor’s report in a form or in terms that are significantly different from the requirements of the SAs. In such a case, the auditor is required to evaluate as to –
- (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.

If, thereafter, the auditor concludes that additional explanation cannot mitigate possible misunderstanding, the SA requires the auditor not to accept the engagement, unless, of course, required by law to do so since an audit conducted in accordance with related law is not required to comply with the SAs. In the case latter case, care need to be taken to ensure that in the auditor’s report does not refer to the audit having been carried in accordance with SAs.

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