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Mr Jim Sylph
Executive Director, Professional Standards
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

By email

Dear Mr Sylph

**PROPOSED REDRAFTED ISA 210 AGREEING THE TERMS OF AUDIT
ENGAGEMENTS**

The Institute of Chartered Accountants in England and Wales ('the Institute') welcomes the opportunity to comment on proposed ISA 210 published by IAASB in January 2008.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

We believe that the clarification reformatting has resulted in a more readable and user-friendly document than previous versions. However, changes to the objectives and the requirements will help ensure consistency of interpretation and improved audit quality, as explained below.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

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Objectives

Are the objectives to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?

No. The necessary preconditions referred to in paragraph 3 (a) and listed in paragraph 4 cover the common understanding referred to in paragraph 3 (b). **The agreement of management and, where appropriate, those charged with governance is considered a precondition of an audit in paragraph 4 which renders the second objective in paragraph 3 redundant; the first should stand alone.** Furthermore, the objective should make specific reference to the acceptability of the financial reporting framework, as described in paragraph 4 (a), 5 and 6 in order to clearly relate a large part of the ISA's requirements and application material to an objective.

Paragraph 3 (a) refers to the 'necessary preconditions' for an audit. Preconditions are by definition necessary and there are references elsewhere to 'preconditions' such as in the header above paragraph 4 and in paragraph 6. We assume these are the same as 'necessary preconditions'. The term 'necessary' is redundant.

The objective should read as follows:

The objective of the auditor is to accept an audit engagement only when the preconditions of an audit are present and have been agreed.

There is no clear list of preconditions, necessary or otherwise, to which the reader can refer. The header 'Preconditions for an Audit' covers paragraphs 4-6 and the associated application material, much of which is clearly outside the scope of preconditions. Furthermore, paragraph 4 itself, which might be expected to list or describe the preconditions, does not do so but instead describes what the auditor will do in order to establish whether they (whatever they are), are present. The application material is no clearer, referring in A11 to the 'premise' of an audit. **IAASB must be clearer in this and other ISAs as to the exact parameters of the preconditions of an audit, the necessary preconditions, the premise(s) and their interrelationship.**

Requirements

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 the use of professional judgment by auditors?

Not in the following cases:

1. Paragraphs 4 (a) and (b) should be reversed because it will in practice always be necessary to obtain the agreement of management whereas only in a minority of cases will it be necessary to undertake more than minimal amount of work to determine whether the financial reporting framework is acceptable.

2. The final section of paragraph 4 is not a requirement. It should either be included in the introductory material if emphasis is needed or in the application material. Paragraph 4 (b) (i) makes reference to the requirements relating to the applicable financial reporting framework. Fairness is, as the description suggests, inherent in fair presentation frameworks. Any failure to provide a fair presentation within such a framework must therefore be a breach of the framework itself, and 4 (b) (i) is sufficient to deal with the issue.
3. Paragraph 4 (b) (ii) (a) is not clear. The current drafting of the sentence implies that the 'other matters' are additional to 'all information'; 'explanations' might be more appropriate in this context or the reference to 'other matters' could be deleted. A reference to information being provided 'to the best of management's knowledge and belief' should also be worked in here and into other relevant ISAs in order to deal with investor concerns regarding statements they are required to make concerning completeness.
4. Paragraph 6 deals with two issues: the acceptability of the reporting framework and the agreement of management and those charged with governance. These would be better dealt with separately in two paragraphs.

The paragraph as originally drafted was clear. The addition of the revision arising from ISA 580 has introduced the lack of clarity. In particular, the wording now implies that compliance with paragraph 19 by management is sufficient to deal with a failure to comply with paragraph 4 (b), when this is not the case. Nor indeed is there any reason to assume that paragraph 19 is of any relevance where there is a failure to comply with paragraph 4 (b).

We suggest that two paragraphs be included: the first should be exactly as the original paragraph, prior to the amendment arising out of ISA 580, the second should simply state that the auditor should not accept appointment if the agreement referred to in paragraph 4 (b) has not been obtained, unless required by law or regulation to do so.

5. Paragraph 10 is not a requirement and paragraph 11 is barely one as a result of the use of the term 'may'. This entire section should be reworked to make it clear that auditors *shall* use the words prescribed in the ISA unless law or regulation prescribe something similar. The application material can then refer to the fact that the words provided in law or regulation *may* be used.
6. The final sentence of paragraph 17 can be construed as an attempt by ISAs to overrule local law or regulation. Where an auditor accepts appointment, as a requirement of law or regulation, but that appointment is not in accordance with ISAs, it is inappropriate for a standard dealing with terms of engagements to attempt to determine that the audit report should not refer to ISAs. This is part of a wider issue best dealt with elsewhere, such as ISA 200.
7. Paragraph 19 should make it clear that auditors should seek to avoid situations that require the use of unacceptable financial reporting frameworks.

Specific matters on which comments are requested

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

Yes. In practice, in many jurisdictions the responsibilities will be more onerous than the minimum requirements set out in ISA 200 and ISA 210. However, we have the same objection to proposed paragraph 16 of ISA 200 as to proposed paragraph 4 of ISA 210 as set out above; we do not consider it necessary to refer to the implications of a fair presentation framework within the standard because such implications are covered by references to the framework itself.

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 include responsibilities that are equivalent in effect to those described in the ISAs?*

Yes.

3. *Do you agree with the proposed conforming amendment to proposed ISA 700 (Redrafted)?*

No. The impact of paragraph 23 (a) is to require the statement of management's responsibility in the terms of the audit engagement to refer to the fairness of a fair presentation framework, in order to comply with paragraph 23. As noted above, such requirements are inherent in such frameworks and as such merit no special reference.

We are also concerned with the circularity of the definition of management used for the purposes of ISA 700. Paragraph 3 (a) states that management has been used to refer to those responsible for the preparation and presentation of the financial statements. It is therefore entirely circular to state that management are responsible for the preparation and presentation of the financial statements; this is true by definition. Yet paragraph 23 (a) requires the audit report to state management's responsibility in the same manner as in the terms of engagement, whilst ISA 210 does not define management in the same way. Paragraph 3 (a) is therefore unnecessary and unhelpful. It would be better to state that management (not defined in a circular way) is responsible for the preparation and presentation of financial statements, unless such responsibility is given by law or regulation to another party. Furthermore, both the engagement terms and audit report should refer to management or to such other party as has responsibility for the financial statements.

We acknowledge that this is a difficult issue, since the ISAs are trying to deal with potential problems associated with financial reporting frameworks, and in particular those in jurisdictions where responsibility for preparation of financial statements is not made clear in law or regulation. However, the current proposals do not achieve the clarity required.

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?*

We refer to our comments above regarding the circular definition of management.

Whilst we cannot comment on all jurisdictions, there are situations in which law and regulation make it clear that persons responsible for procuring financial statements that comply with a financial reporting framework are not, technically, responsible for their preparation in accordance with that framework.