

## AGREEING THE TERMS OF AUDIT ENGAGEMENTS: CAS 210

### Objective

- An auditor should accept or continue an audit engagement when:
  - The **preconditions** for an audit are present; and
  - There is **common understanding** between the auditor, management, and those charged with governance

### Requirements

#### Preconditions for an Audit

- To establish whether the **preconditions for an audit are present**:
  1. Determine if the **financial reporting framework is acceptable** (i.e. GAAP); and
  2. Obtain **agreement from management** that it accepts and understands its responsibility:
    - For the preparation of F/S in accordance with the **applicable framework**
    - The **fair presentation of** these F/S
    - For the **internal controls**; and
    - To provide the auditor with
      - **Access to all information** which management is aware of and relevant to the preparation of the F/S
      - **Additional information** that the auditor may request for the audit
      - **Unrestricted access to people** within the organization to obtain audit evidence

#### Limitation on Scope Prior to Audit Engagement Acceptance

- If management or the board of directors impose a **limitation on the auditor's work** and if the **auditor believes** that such limitation will result in a **disclaimer of an opinion**, the auditor should **not accept the engagement**

#### Agreement on Audit Engagement Terms

- The auditor should obtain agreement on the terms of the audit from management or those charged with governance
- Terms of the audit engagement are written in the **audit engagement letter**, with the following:
  - The objective and scope of the audit of F/S
  - The responsibility of the auditor
  - The responsibility of management
  - the financial reporting framework for the presentation of the F/S (i.e. ASPE, IFRS)
  - reports to be issued by the auditor

#### Recurring Audits

- the auditor doesn't need to send a new audit engagement letter to the client unless the auditor needs to revise the terms of the audit engagement or to remind management of the terms
- some reasons to send in a new engagement letter include:
  - a recent change in ownership, senior management
  - significant change in the nature/size of the entity's business
  - a change in the financial reporting framework

### Acceptance of a Change in the Terms of the Audit Engagement

- the auditor should not agree to change the terms (if the client asks) of the audit if there is no reasonable justification for doing so
- if the terms are changed a new engagement letter should be created and agreed to by the client