

**How do we determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable?** [ISA | 7608.12584]

We determine the appropriateness of the financial reporting framework to be applied in preparing the financial statements through CEAC, as part of our client and engagement continuance process.

Factors that are relevant to this determination include the following.

Relevant factors	Examples
Nature of the entity	Whether it is a business enterprise, a public sector entity or a not for profit organization.
Purpose of the financial statements	Whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users.
Nature of the financial statements	Whether the financial statements are a complete set of financial statements or a single financial statement
Law or regulation prescribes the applicable financial reporting framework	Whether local laws or regulations determine the applicable financial reporting framework

**What do we do if management or those charged with governance impose a limitation on the scope of our work on the financial statements?** [ISA | 7608.12589]

Management or those charged with governance may impose a limitation on the scope of our work on the financial statements for the proposed engagement.

We may believe that the limitation will result in us disclaiming an opinion on the financial statement. In this case, we don't accept the engagement, unless required by law or regulation to do so.

For engagements performed in the US, see [US RMM 20.6.4.3.2](https://alex.kpmg.com/AROWeb/document/lfc/US_DPP_MANUALS_RMM_000/toc/US_DPP_MANUALS_RMM_020?tocref=US_DPP_MANUALS_RMM_000&x=0) [https://alex.kpmg.com/AROWeb/document/lfc/US\\_DPP\\_MANUALS\\_RMM\\_000/toc/US\\_DPP\\_MANUALS\\_RMM\\_020?tocref=US\\_DPP\\_MANUALS\\_RMM\\_000&x=0](https://alex.kpmg.com/AROWeb/document/lfc/US_DPP_MANUALS_RMM_000/toc/US_DPP_MANUALS_RMM_020?tocref=US_DPP_MANUALS_RMM_000&x=0) for additional guidance.

**What do we do if the preconditions of the audit of the financial statements are not met?** [ISA | 7608.12590]

If the preconditions of the audit of the financial statements are not met, then we discuss this matter with management and those charged with governance. Unless, required by law or regulation, we do not accept the proposed audit engagement if:

- the financial reporting framework is unacceptable, except as provided in ISA 210.19 (see activity '[Perform certain procedures when law or regulation of the relevant jurisdiction impacts our auditor's report and consult](#)'); or
- the agreement of management and those charged with governance that they acknowledge and understand their responsibility has not been obtained.

For audit engagements performed in the US, see [US RMM 20.6.4.3.1](https://alex.kpmg.com/AROWeb/document/lfc/US_DPP_MANUALS_RMM_000/toc/US_DPP_MANUALS_RMM_020?tocref=US_DPP_MANUALS_RMM_000&x=0) [https://alex.kpmg.com/AROWeb/document/lfc/US\\_DPP\\_MANUALS\\_RMM\\_000/toc/US\\_DPP\\_MANUALS\\_RMM\\_020?tocref=US\\_DPP\\_MANUALS\\_RMM\\_000&x=0](https://alex.kpmg.com/AROWeb/document/lfc/US_DPP_MANUALS_RMM_000/toc/US_DPP_MANUALS_RMM_020?tocref=US_DPP_MANUALS_RMM_000&x=0) for additional guidance.

# Agreement on Audit Engagement Terms and Acceptance of a Change in the Terms of the Audit Engagement

## International Standards on Auditing: ISA 210.09-17

### 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, 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 - A27)

- (a) The objective and scope of the audit of the financial statements;
- (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 statements; and
- (e) Reference to the expected form and content of any reports to be issued by the auditor; and (Ref: Para. A24)
- (f) A statement that there may be circumstances in which a report may differ from its expected form and content.

11. If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10, 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). (Ref: Para. A23, A28 - A29)

12. If law or regulation prescribes responsibilities of management similar to those described in paragraph 6(b), the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, 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). (Ref: Para. A28)

### 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.

## ISA Application and Other Explanatory Material: ISA 210.A22-A35

### 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* (Ref: Para. 10-11)

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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.

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 ISA 200.<sup>17</sup> Paragraphs 6(b) and 12 of this ISA 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, ISAs, 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 ISA 701.<sup>18</sup>
- 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 ISAs.
- Arrangements regarding the planning and performance of the audit, including the composition of the engagement team.
- 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 statements, including an expectation that management will provide access to information relevant to disclosures.
- The agreement of management to make available to the auditor draft financial statements, 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,<sup>19</sup> 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 statements, of which management may become aware during the period from the date of the auditor's report to the date the financial statements are 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.

<sup>17</sup> ISA 200, paragraphs 3 - 9

<sup>18</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>19</sup> As defined in ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

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.

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.

## 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 A29, 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 statements.
- 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 ISAs 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.

## How do we comply with the Standards? [ISA | KAEGHDWC]

# 1 Establish an understanding of the terms of the audit [ISA | 1224]

## What do we do?

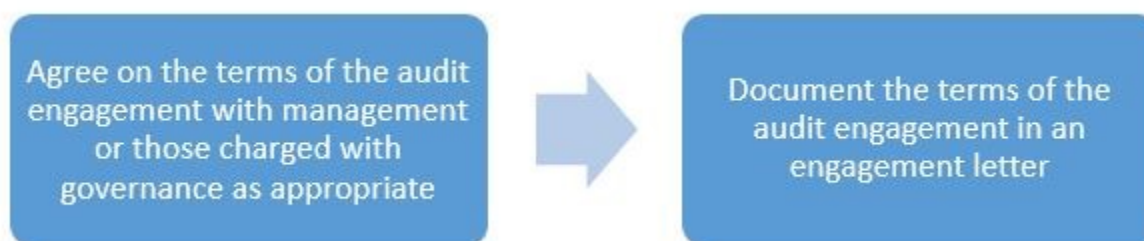
Agree on the terms of the audit engagement with management or those charged with governance, as appropriate AND record the required items in an engagement letter.

## Why do we do this?

We agree on the terms of the audit with management or those charged with governance, as appropriate, and record them in an engagement letter because it helps in establishing a clear understanding of the roles and responsibilities of both parties and avoids a misinterpretation of their needs and expectations.

## Execute the Audit

How do we establish an understanding of the terms of the audit with management or those charged with governance, as appropriate? [ISA | 1224.159770]



To establish an understanding of the terms of the audit with management or those charged with governance, as appropriate, we:

- on recurring audits, 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 engagement.
- agree on the terms of the audit engagement with management or those charged with governance, as appropriate.
- use the applicable standard template engagement contracts and standard terms and conditions that are provided by the KPMG member firm.

Where can we find information on establishing an understanding of the terms of the audit? [ISA | 1224.1300]

Refer to [Chapter 9.5 of the Global Quality & Risk Management Manual](https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/81) https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/81 for requirements and guidance about engagement letters together with any local policies,

procedures and guidance. Refer to your local member firm engagement letter templates.

What do we do when the terms of the audit engagement change? [ISA | 1224.159771]



Determine whether reasonable justification for a change in the terms of the audit exists



Management and we agree on and document the new terms of the engagement in a new engagement letter

When the terms of the audit engagement change, management and we agree on and document the new terms of the engagement in a new engagement letter or other suitable written agreement, for example, an addendum to the original engagement letter. However, we do not agree to a change in the terms of the audit engagement when no reasonable justification exists.

When management requests a change to the terms of the audit engagement to an engagement with a lower level of assurance - e.g., a review or agreed upon procedures, we also assess any legal or contractual implications of the change.

### What do we do when we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement?

[ISA | 1224.159772]

When we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement, we:

- withdraw from the audit engagement when possible under applicable law or regulation; and
- determine whether any obligation, either contractual or otherwise, exists to report the circumstances to other parties - e.g. those charged with governance, owners or regulators.

### Group Audit | Do we establish an understanding of the terms of the engagement with component auditors? [ISA | 1224.159586]

The group audit instructions are the terms of the agreement between the lead group auditor and the component auditor. We do not have engagement letters with component auditors.

Refer to [Section 9.8 of the Global Quality & Risk Management Manual](https://www.gqrrm-prod.kworld.kpmg.com/G/0/Content/81) <https://www.gqrrm-prod.kworld.kpmg.com/G/0/Content/81> (GQ&RMM) for guidance about engagement letters in a multi-firm engagements.

### Group Audit | Does the component auditor establish a separate understanding of the terms of the engagement with management of the entity or business unit? [ISA | 1224.159587]

Once we, as the lead group auditor, have signed the group engagement letter with the client, separate engagement letters for the work performed by a KPMG component auditor on the financial information of the component for the group audit purposes may not be necessary. However, the component auditor establishes separate agreements for statutory audits, statutory reviews and other stand-alone reports for the component.

We may request the KPMG component auditor to obtain a separate engagement or a fee letter for the work performed on the financial information of the component as part of the group audit (e.g., when fees are billed by the KPMG component auditor directly to management of the entity or business unit).

Refer to [Chapter 9 of the Global Quality & Risk Management Manual](https://www.gqrrm-prod.kworld.kpmg.com/G/0/Content/81) <https://www.gqrrm-prod.kworld.kpmg.com/G/0/Content/81> (GQ&RMM) for guidance about engagement letters.

### Where do we file the engagement letter? [ISA | 1224.157428]



We include the signed engagement letter and any other documents relevant to understanding the terms of the audit in the current year audit file.

#### What additional procedures do we perform for multi-firm engagements? [ISA | 1224.8815]

Certain audit technologies are hosted in third-party cloud environments, such as KPMG Clara workflow. In addition, engagement teams may use third-party service providers within and outside of their home country (e.g. offshore IT support).

If multi-firm engagements intend to host and use client data in the cloud and to permit access by third party service providers to such data, originating auditor and other auditors determine if the engagement terms allow them to do so.

We refer to our local member firm engagement letter template.

#### Who is an originating auditor? [ISA | 1224.8901]

In relation to multi-firm engagements, an originating auditor is an auditor that uses the work of another auditor from another KPMG member firm.

#### What are examples of other auditors that we use from another KPMG member firm? [ISA | 1224.8902]

Examples of other auditors are:

- a KPMG component auditor undertaking work for a group audit,
- a KPMG participating auditor undertaking work at a location, or
- a KPMG [auditor undertaking work in a multi-firm audit involving entities registered for statutory purposes in a jurisdiction different than the location of the entities' business activities](https://alex.kpmg.com/AROWeb/document/lfc/KAEG5_INTL_2023) https://

alex.kpmg.com/AROWeb/document/lfc/KAEG5\_INTL\_2023.

#### What additional procedures do we perform as an originating auditor in a multi-firm engagement? [ISA | 1224.8829]

We communicate to other auditors, before those other auditors set up their audit engagement files, the terms (or lack of terms) in our engagement letter related to the other auditors hosting data in the cloud and use of third party service providers, including any restrictions.

We refer to our local member firm example communication template.

#### What additional procedures do we perform as an other auditor in a multi-firm engagement when we have a local engagement letter? [ISA | 1224.8830]

We perform the following procedures based upon the scenarios below:

Scenario	Procedures
Our local engagement letter does not provide us with the permissions related to hosting client data in the cloud and/or access by third party service providers.	Prior to setting up our engagement file, we consider our member firm' guidance in assessing how to obtain consent to use client data in the cloud and permit access by third party service providers.

Our local engagement letter contains terms inconsistent with terms in the originating auditor's engagement letter in relation to hosting client data in the cloud and/or access by third party service providers.	Consult with the originating auditor, and local DPP, Risk Management and/or Office of General Counsel, as appropriate.
We have no local engagement letter and receive communication from the originating auditor that provides consent to use client data in the cloud and use third party service providers.	Prior to setting up our engagement file, we consider local member firm guidance regarding legal requirements in our local jurisdiction.

## Additional Considerations in Engagement Acceptance

### International Standards on Auditing: ISA 210.18-21

#### Additional Considerations in Engagement Acceptance

##### *Financial Reporting Standards Supplemented by Law or Regulation*

18. If financial reporting standards established by an authorized or recognized standards setting organization 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 statements; or
- (b) The description of the applicable financial reporting framework in the financial statements 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 ISA 705.<sup>3</sup> (Ref: Para. A36)

<sup>3</sup> ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*

##### *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 statements required to avoid the financial statements being misleading; and
- (b) It is recognized in the terms of the audit engagement that:
  - (i) The auditor's report on the financial statements will incorporate an Emphasis of Matter paragraph, drawing users' attention to the additional disclosures, in accordance with ISA 706 (Revised);<sup>4</sup> and
  - (ii) Unless the auditor is required by law or regulation to express the auditor's opinion on the financial statements by using the phrases "present fairly, in all material respects," or "give a true and fair view" in accordance with the applicable financial reporting framework, the auditor's opinion on the financial statements will not include such phrases.

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4 ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

20. If the conditions outlined in paragraph 19 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 statements 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 ISAs. In these circumstances, the auditor shall evaluate:

- (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.<sup>5</sup>

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 ISAs. Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with ISAs.<sup>6</sup> (Ref: Para. A38 - A39)

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5 ISA 706 (Revised)

6 See also ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 43.

## **ISA Application and Other Explanatory Material: ISA 210.A36-A39**

### **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 authorized or recognized standards setting organization with additional requirements relating to the preparation of financial statements. In those jurisdictions, the applicable financial reporting framework for the purposes of applying the ISAs 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 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.<sup>20</sup>

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20 ISA 700 (Revised), paragraph 15, includes a requirement regarding the evaluation of whether the financial statements adequately refer to or describe the applicable financial reporting framework.

### *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 ISAs (see paragraph 21).

### *Auditor's Report Prescribed by Law or Regulation (Ref: Para. 21)*

A38. ISAs require that the auditor shall not represent compliance with ISAs unless the auditor has complied with all of the ISAs relevant to the audit.<sup>21</sup> 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 ISAs 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 ISAs. The auditor is, however, encouraged to apply ISAs, including the ISAs 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 ISAs.

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21 ISA 200, paragraph 20

### *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.

## How do we comply with the Standards? [ISA | KAEGHDWC]

# 1 Perform certain procedures when law or regulation of the relevant jurisdiction impacts our auditor's report and consult [ISA | 7633]

## What do we do?

Perform certain procedures when law or regulation of the relevant jurisdiction impacts our auditor's report.

## Why do we do this?

Laws or regulations in some jurisdictions can impact the financial reporting standards and framework we report under. When laws or regulations impact the financial reporting standards, framework or our report, it may be necessary to consult with appropriate parties to avoid issuing an incorrect audit opinion.

## Execute the audit

[What do we do when the financial reporting standards established by an authorized or recognized standards setting organization are supplemented by law or regulation?](#) [ISA | 7633.12699]

When the financial reporting standards established by an authorized or recognized standards setting organization are supplemented by law or regulation, we determine whether there are any conflicts between the financial reporting standards and the additional requirements. If such conflicts exist, we discuss the additional requirements with management and agree whether:

- The additional requirements can be met through additional disclosures in the financial statements; or
- The description of the applicable financial reporting framework in the financial statements can be amended accordingly.

[What do we do when we cannot either add disclosures or amend the description of the applicable financial reporting framework?](#) [ISA | 7633.12700]

If it is not possible to include additional disclosures or amend the description of the applicable financial reporting framework, we may modify our opinion ([ISA 705](#)).

[Who do we consult with when the financial reporting standards established by an authorized or recognized standards setting organization are supplemented by law or regulation?](#) [ISA | 7633.12701]

In the absence of local policies and protocols established or agreed to by DPP, we consult with the risk management partner when the financial reporting standards established by an authorized or recognized standards setting organization are supplemented by law or regulation and we determine that there are conflicts between the financial reporting standards and the additional requirements.

[What do we do when we determine the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation?](#) [ISA | 7633.12702]

In the absence of local policies and protocols, we consult with the risk management partner when financial reporting framework prescribed by law or regulation is unacceptable.

When we determine the financial reporting framework prescribed by law or regulation would be unacceptable, we can accept the audit engagement when the following conditions are present:

- Management agrees to provide additional disclosures in the financial statements required to avoid the financial statements being misleading; and
- It is recognized in the terms of the audit 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 accordance with the chapter on emphasis of and other matter paragraphs ([ISA 706](#)) and
  - Unless we are required by law or regulation to express the auditor's opinion on the financial statements by using the phrases "present fairly, in all material respects," or "give a true and fair view" in accordance with the applicable financial reporting framework, the auditor's opinion on the financial statements will not include such phrases.

[What do we do when the conditions are not met to accept an engagement where the financial reporting framework prescribed by law or regulation would be unacceptable?](#) [ISA | 7633.12703]

If the conditions to accept the engagement are not present and we are required by law or regulation to undertake the audit engagement, we:

- Evaluate the effect of the misleading nature of the financial statements on the auditor's report; and
- Include appropriate reference to this matter in the terms of the audit engagement.

[What do we do when a law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report that significantly differs from the requirements of the ISAs?](#) [ISA | 7633.12704]

In the absence of local policies and protocols, we consult with the risk management partner when a law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report that significantly differs from the requirements of the ISAs.

[What do we evaluate when a law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report that significantly differs from the requirements of the ISAs?](#) [ISA | 7633.12705]

If law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report that significantly differs from the requirements of the ISAs, we evaluate:

- whether users might misunderstand the auditor's report and, if so,
- whether additional explanation in the auditor's report can mitigate possible misunderstanding.

[What do we do if we are not permitted to reword the prescribed form or attach a separate report?](#) [ISA | 7633.12706]

If we conclude that additional explanation in the auditor's report cannot mitigate a possible misunderstanding, we do not accept the audit engagement unless we are required by law or regulation to do so. An audit performed in accordance with such law or regulation does not comply with the ISAs.

[What is the impact to the auditor's report if we are required by law or regulation to perform the audit?](#) [ISA | 7633.12707]

When we are required by law or regulation to perform the audit we do not include any reference to the audit having been performed in accordance with the ISAs within the auditor's report.

# Appendix 1 - Example of an Audit Engagement Letter

## International Standards on Auditing: ISA 210. Appendix 1 Appendix 1 Example of an Audit Engagement Letter

(Ref: Para. A24-26)

The following is an example of an audit engagement letter for an audit of general purpose financial statements prepared in accordance with International Financial Reporting Standards. 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 ISA. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 13). 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:<sup>22</sup>

*[The objective and scope of the audit ]*

You<sup>23</sup> have requested that we audit the financial statements of ABC Company, which comprise the statement of financial position as at December 31, 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 a summary of significant accounting policies. 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 statements as a whole are 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 International Standards on Auditing (ISAs) 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 these financial statements.

*[The responsibilities of the auditor ]*

We will conduct our audit in accordance with ISAs. Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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



opinion on the effectiveness of the entity's internal control.<sup>24</sup> However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements 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 statements 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 statements, including the disclosures, and whether the financial statements represent 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 ISAs.

*[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 ISA are therefore used). ]*

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

- (a) For the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards;<sup>26</sup>
- (b) For 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; and
- (c) To provide us with:<sup>27</sup>
  - (i) Access to all information of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - (ii) Additional information that we may request from [management] for the purpose of the audit; and
  - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

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 ISA 720 (Revised). ]

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

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 statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....

Name and Title

Date

---

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.

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.

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 statements.

25 Use terminology as appropriate in the circumstances.

26 Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards."

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

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Establish an understanding of the terms of the audit [ISA | 1224]

#### What do we do?

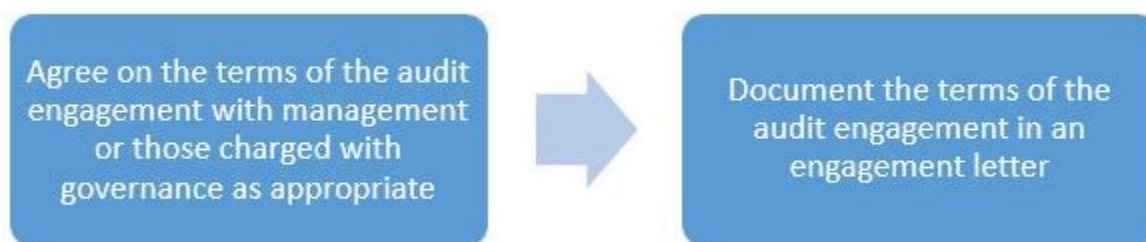
Agree on the terms of the audit engagement with management or those charged with governance, as appropriate AND record the required items in an engagement letter.

#### Why do we do this?

We agree on the terms of the audit with management or those charged with governance, as appropriate, and record them in an engagement letter because it helps in establishing a clear understanding of the roles and responsibilities of both parties and avoids a misinterpretation of their needs and expectations.

## Execute the Audit

How do we establish an understanding of the terms of the audit with management or those charged with governance, as appropriate? [ISA | 1224.159770]



To establish an understanding of the terms of the audit with management or those charged with governance, as appropriate, we:

- on recurring audits, 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 engagement.
- agree on the terms of the audit engagement with management or those charged with governance, as appropriate.
- use the applicable standard template engagement contracts and standard terms and conditions that are provided by the KPMG member firm.

Where can we find information on establishing an understanding of the terms of the audit? [ISA | 1224.1300]

Refer to [Chapter 9.5 of the Global Quality & Risk Management Manual](https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/81) <https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/81> for requirements and guidance about engagement letters together with any local policies,

procedures and guidance. Refer to your local member firm engagement letter templates.

What do we do when the terms of the audit engagement change? [ISA | 1224.159771]



When the terms of the audit engagement change, management and we agree on and document the new terms of the engagement in a new engagement letter or other suitable written agreement, for example, an addendum to the original engagement letter. However, we do not agree to a change in the terms of the audit engagement when no reasonable justification exists.

When management requests a change to the terms of the audit engagement to an engagement with a lower level of assurance - e.g., a review or agreed upon procedures, we also assess any legal or contractual implications of the change.

## What do we do when we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement?

[ISA | 1224.159772]

When we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement, we:

- withdraw from the audit engagement when possible under applicable law or regulation; and
- determine whether any obligation, either contractual or otherwise, exists to report the circumstances to other parties - e.g. those charged with governance, owners or regulators.

## Group Audit | Do we establish an understanding of the terms of the engagement with component auditors? [ISA | 1224.159586]

The group audit instructions are the terms of the agreement between the lead group auditor and the component auditor. We do not have engagement letters with component auditors.

Refer to [Section 9.8 of the Global Quality & Risk Management Manual](https://www.gqrrmm-prod.kworld.kpmg.com/G/0/Content/81) <https://www.gqrrmm-prod.kworld.kpmg.com/G/0/Content/81> (GQ&RMM) for guidance about engagement letters in a multi-firm engagements.

## Group Audit | Does the component auditor establish a separate understanding of the terms of the engagement with management of the entity or business unit? [ISA | 1224.159587]

Once we, as the lead group auditor, have signed the group engagement letter with the client, separate engagement letters for the work performed by a KPMG component auditor on the financial information of the component for the group audit purposes may not be necessary. However, the component auditor establishes separate agreements for statutory audits, statutory reviews and other stand-alone reports for the component.

We may request the KPMG component auditor to obtain a separate engagement or a fee letter for the work performed on the financial information of the component as part of the group audit (e.g., when fees are billed by the KPMG component auditor directly to management of the entity or business unit).

Refer to [Chapter 9 of the Global Quality & Risk Management Manual](https://www.gqrrmm-prod.kworld.kpmg.com/G/0/Content/81) <https://www.gqrrmm-prod.kworld.kpmg.com/G/0/Content/81> (GQ&RMM) for guidance about engagement letters.

## Where do we file the engagement letter? [ISA | 1224.157428]

We include the signed engagement letter and any other documents relevant to understanding the terms of the audit in the current year audit file.

## What additional procedures do we perform for multi-firm engagements? [ISA | 1224.8815]

Certain audit technologies are hosted in third-party cloud environments, such as KPMG Clara workflow. In addition, engagement teams may use third-party service providers within and outside of their home country (e.g. offshore IT support).

If multi-firm engagements intend to host and use client data in the cloud and to permit access by third party service providers to such data, originating auditor and other auditors determine if the engagement terms allow them do so.

We refer to our local member firm engagement letter template.

## Who is an originating auditor? [ISA | 1224.8901]

In relation to multi-firm engagements, an originating auditor is an auditor that uses the work of another auditor from another KPMG member firm.

[What are examples of other auditors that we use from another KPMG member firm?](#) [ISA | 1224.8902]

Examples of other auditors are:

- a KPMG component auditor undertaking work for a group audit,
- a KPMG participating auditor undertaking work at a location, or
- a KPMG [auditor undertaking work in a multi-firm audit involving entities registered for statutory purposes in a jurisdiction different than the location of the entities' business activities](#) [https://](https://alex.kpmg.com/AROWeb/document/lfc/KAEG5_INTL_2023)

[alex.kpmg.com/AROWeb/document/lfc/KAEG5\\_INTL\\_2023](https://alex.kpmg.com/AROWeb/document/lfc/KAEG5_INTL_2023).

[What additional procedures do we perform as an originating auditor in a multi-firm engagement?](#) [ISA | 1224.8829]

We communicate to other auditors, before those other auditors set up their audit engagement files, the terms (or lack of terms) in our engagement letter related to the other auditors hosting data in the cloud and use of third party service providers, including any restrictions.

We refer to our local member firm example communication template.

[What additional procedures do we perform as an other auditor in a multi-firm engagement when we have a local engagement letter?](#) [ISA | 1224.8830]

We perform the following procedures based upon the scenarios below:

Scenario	Procedures
Our local engagement letter does not provide us with the permissions related to hosting client data in the cloud and/or access by third party service providers.	Prior to setting up our engagement file, we consider our member firm' guidance in assessing how to obtain consent to use client data in the cloud and permit access by third party service providers.
Our local engagement letter contains terms inconsistent with terms in the originating auditor's engagement letter in relation to hosting client data in the cloud and/or access by third party service providers.	Consult with the originating auditor, and local DPP, Risk Management and/or Office of General Counsel, as appropriate.
We have no local engagement letter and receive communication from the originating auditor that provides consent to use client data in the cloud and use third party service providers.	Prior to setting up our engagement file, we consider local member firm guidance regarding legal requirements in our local jurisdiction.

# Appendix 2 - Determining the Acceptability of General Purpose Frameworks

## International Standards on Auditing: ISA 210. Appendix 2

### Appendix 1 Example of an Audit Engagement Letter

(Ref: Para. A24-26)

The following is an example of an audit engagement letter for an audit of general purpose financial statements prepared in accordance with International Financial Reporting Standards. 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 ISA. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 13). 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:<sup>22</sup>

*[The objective and scope of the audit ]*

You<sup>23</sup> have requested that we audit the financial statements of ABC Company, which comprise the statement of financial position as at December 31, 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 a summary of significant accounting policies. 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 statements as a whole are 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 International Standards on Auditing (ISAs) 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 these financial statements.

*[The responsibilities of the auditor ]*

We will conduct our audit in accordance with ISAs. Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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

opinion on the effectiveness of the entity's internal control.<sup>24</sup> However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements 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 statements 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 statements, including the disclosures, and whether the financial statements represent 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 ISAs.

*[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 ISA are therefore used). ]*

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

- (a) For the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards;<sup>26</sup>
- (b) For 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; and
- (c) To provide us with:<sup>27</sup>
  - (i) Access to all information of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - (ii) Additional information that we may request from [management] for the purpose of the audit; and
  - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

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 ISA 720 (Revised). ]

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

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 statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....

Name and Title

Date

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.

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.

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 statements.

25 Use terminology as appropriate in the circumstances.

26 Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards."

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

## Appendix 2 Determining the Acceptability of General Purpose Frameworks

(Ref: Para. A10)

### Jurisdictions that Do Not Have Authorized or Recognized Standards Setting Organizations or Financial Reporting Frameworks Prescribed by Law or Regulation

1. As explained in paragraph A10 of this ISA, when an entity is registered or operating in a jurisdiction that does not have an authorized or recognized standards setting organization, 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 organizations described in paragraph A8 of this ISA.

2. Alternatively, there may be established accounting conventions in a particular jurisdiction that are generally recognized as the financial reporting framework for general purpose financial statements 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) of this ISA to determine whether the accounting conventions collectively can be considered to constitute an acceptable financial reporting framework for general purpose financial statements. 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 statements that is useful to the intended users:

- (a) Relevance, in that the information provided in the financial statements is relevant to the nature of the entity and the purpose of the financial statements. For example, in the case of a business enterprise that prepares general purpose financial statements, 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 statements are not omitted.
- (c) Reliability, in that the information provided in the financial statements:
  - (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 statements that is free from bias.
- (e) Understandability, in that the information in the financial statements 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 authorized or recognized standards setting organization. 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 statements 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 statements, could result in financial statements that are misleading.

5. A conglomeration of accounting conventions devised to suit individual preferences is not an acceptable financial reporting framework for general purpose financial statements. 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.

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