

GENERAL CLARIFICATION (GC)–AASB/2/2004 ON SA 210

Standard on Auditing (SA) 210, “Terms of Audit Engagement”

{The following is the General Clarification (GC)–AASB/2/2004 issued by the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India on Standard on Auditing (SA) 210, “Terms of Audit Engagement.”}

1. The Standard on Auditing (SA) 210, “Terms of Audit Engagement” was issued with a view to establish standards on:
 - (a) agreeing the terms of the engagement with the client; and
 - (b) the auditor's response to a request by a client to change the terms of an engagement to one that provides a lower level of assurance.
2. A question that arises is whether it is necessary that the engagement letter issued by the auditor should be acknowledged by addressee and returned to the auditor to indicate that the client's understanding of the terms of the engagement is in accordance with the engagement letter issued by the auditor and to establish that the auditor has complied with the requirements of the Standard in so far as they are related to sending the audit engagement letter.
3. Paragraphs 2 through 4 of SA 210 provide as follows:
 - “2. The auditor and the client should agree on the terms of the engagement. The agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract.
 3. This SA is intended to assist the auditor in the preparation of engagement letters relating to audits of financial statements. The Standard is also applicable to related services. When other services such as tax, accounting, or management consultancy and other services are to be provided, separate letters may be appropriate.
 4. Though the objective and scope of an audit and the auditor's obligations are, normally, laid down in the applicable statute or regulations and the pronouncements of the Institute of Chartered Accountants of India, the audit engagement letters would be informative for the clients.”

4. From the above it is clear that the basic purpose of issuing an engagement letter is that the auditor and the client should agree on the terms of the engagement. The auditor and the client are normally considered to be agreeing on the terms of the engagement if the objective and scope of an audit and the auditor's obligations are laid down in the statute or regulations governing the engagement. Examples of such engagements include audit under section 227 of the Companies Act, 1956, audit of public sector banks, etc. In such cases, it is not necessary that the engagement letter sent by the auditor in accordance with paragraph 5 of SA 210 is acknowledged by the addressee and returned to the auditor to establish that the client's understanding of the terms of the engagement is in accordance with the engagement letter issued by the auditor. It shall be sufficient compliance with the requirements related to sending the audit engagement letter, if an engagement letter is appropriately delivered to the client and the auditor retains the evidence for such delivery. In such cases, the audit engagement letters would be informative for the clients.

5. If, however, the client seeks any further explanations or clarification in regard to any terms, conditions or other contents of the engagement letter issued, it might indicate that there exists a difference in understanding of the terms of audit engagement either on the part of the client or on the part of the auditor. The auditor, in such cases, should take necessary steps to resolve the issues, for example by appropriately replying to the issues raised by the client. It is also desirable that the auditor documents the evidence indicating that the issues are settled and the client and auditor agree on the terms of the engagement.

6. There may be certain engagements where the objective and scope of the engagement and the auditor's obligations are not laid down in the applicable statute or regulations. In such situations, the auditor should request the client that a copy of the engagement letter be acknowledged by the addressee and returned to the auditor to establish:

- (a) that the client's understanding of the arrangements for the engagement is in accordance with the engagement letter issued by the auditor; and
- (b) that the auditor has complied with the requirements of the standard in so far as they are related to sending the audit engagement letter.