

# IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (May 2006)

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## **SUPPLEMENT TO EXPOSURE DRAFT, PROPOSED ISA 260 (REDRAFTED): MAPPING DOCUMENT**

This supplement to the IAASB Exposure Draft, Proposed ISA 260 (Redrafted), “The Auditor’s Communication With Those Charged With Governance,” has been prepared by IAASB staff to demonstrate how the material in the revised March 2005 Exposure Draft of ISA 260<sup>1</sup> has been reflected in this Exposure Draft.

Exhibit 1 identifies existing sentences in the present tense and whether they are now treated as a requirement or as application material.

Exhibit 2 maps the material of the revised March 2005 Exposure Draft of ISA 260 (which may have been reworded as necessary) to the proposed ISA 260 (Redrafted). The highlight material identifies material that is proposed to be eliminated or repositioned to another ISA as a result of redrafting. An explanation of the proposed deletion and other comments are provided, where appropriate.

The material included herein is provided only to assist readers of the Exposure Draft. It is for information purposes only and does not form part of the Exposure Draft. The IAASB has not approved, disapproved, or otherwise acted upon this supplement. It is neither authoritative nor an official pronouncement nor statement of the IAASB.

### **Exhibit 1**

<b>Para</b>	<b>Existing present tense statements</b>	<b>Require ment?</b>	<b>New para</b>	<b>Rationale and comment</b>
7	To achieve the principal purposes of communication, the auditor communicates matters clearly with those charged with governance, and reasonably expects those charged with governance to communicate clearly matters they consider relevant to the audit.	Yes	7	Considered essential for all audits
17	When the appropriate person(s) with whom to communicate is not clearly identifiable from the engagement circumstances, the auditor and the engaging party agree on the relevant person(s) within the entity’s governance structure.	Yes	9	Considered essential for all audits
22	The auditor considers whether communication with the audit committee alone adequately fulfills the auditor’s responsibility to communicate with those charged with governance, taking into account the considerations referred to in paragraph 20. In some circumstances, the auditor may also need to communicate with the governing body.	Yes	10	Considered essential for all audits
24	In such cases, the auditor nonetheless considers whether communication with person(s) with management responsibilities adequately informs all of those with	Yes	12	Considered essential for all audits

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<sup>1</sup> A copy of the revised March 2005 Exposure Draft, as approved by the IAASB in May 2006, is available at the IAASB website [www.ifac.org/iaasb](http://www.ifac.org/iaasb).

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	whom the auditor would otherwise communicate in their governance capacity.			
25	The auditor communicates the following matters with those charged with governance: (a) The auditor's responsibilities in relation to the financial statement audit (see paragraphs 27-30); (b) The planned scope and timing of the audit (see paragraphs 31-35); (c) Findings from the audit (see paragraphs 36-42); and (d) When appropriate, auditor independence (see paragraphs 43-45).	No	–	Navigation guide – not necessary in new format
28	The auditor communicates with those charged with governance that: (a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and (b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.	Yes	14	Considered essential for all audits
39	The auditor explains to those charged with governance why the auditor considers a significant accounting practice not to be appropriate and, when considered necessary, requests changes.	Yes	16(a)	Considered essential for all audits
45	The auditor considers whether the communications set out in paragraph 41 are also relevant in the case of entities that are not listed entities, particularly those that may be of significant public interest because, as a result of their business, their size or their corporate status, they have a wide range of stakeholders.	Yes	18	Considered essential for all audits
69	The auditor considers the effect, if any, on the auditor's assessment of the risks of material misstatements.	Yes	24	Considered essential for all audits

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### Mapping Document

### Exhibit 2

Original ISA 260	New Par Ref	Comment on proposed deletion of highlighted material and other notes
1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the auditor's communication with those charged with governance in relation to an audit of financial statements. Although this ISA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities.	1	
2. This ISA has been drafted in terms of an audit of financial statements, but may also be applicable, adapted as necessary in the circumstances, to audits of other historical financial information.	2	
3. This ISA provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them. Additional matters to be communicated, which complement the requirements of this ISA, are identified in other ISAs (see Appendix 1). Further matters, not required by this ISA, may be required to be communicated by laws or regulations, by agreement with the entity, or by additional requirements applicable to the engagement, e.g., the standards of a national professional accountancy body. Nothing in this ISA precludes the auditor from communicating any other matters to those charged with governance.	3	
4. <b>The auditor should communicate with those charged with governance matters related to the financial statement audit that are, in the auditor's professional judgment, significant and relevant to those charged with governance in overseeing the financial reporting process.</b>		This is a summary of other black letters, which is unnecessary in the new format, particularly given paragraph 5 (b) of the objective.
5. In this ISA: (a) "Those charged with governance" means the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include some or all management personnel, e.g., executive members of a governance board, or an owner-manager. In some cases, those charged with governance are responsible for approving the entity's financial statements (in other cases management has this responsibility). For discussion of the diversity of governance structures, see paragraphs 13-24.	6	

<p>(b) “Management” means the person(s) who have executive responsibility for the conduct of the entity’s operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, e.g., executive members of a governance board, or an owner-manager. Management is responsible for preparing the financial statements, overseen by those charged with governance, and in some cases management is also responsible for approving the entity’s financial statements (in other cases those charged with governance have this responsibility).</p>		
<p>6. The remainder of this ISA is structured as follows:</p> <p>(a) <i>The role of communication</i>: This section notes the principal purposes of communication, and the importance of effective two-way communication.</p> <p>(b) <i>Legal considerations</i>. This section notes that certain legal requirements can affect communications.</p> <p>(c) <i>Those charged with governance</i>: This section discusses the diversity of governance structures and processes, and notes that the auditor’s understanding of the entity and its environment is used to determine the relevant person(s) with whom to communicate particular matters.</p> <p>(d) <i>Matters to be communicated</i>. This section identifies the matters the auditor is required to communicate, including the auditor’s responsibilities, the planned scope and timing of the audit, findings from the audit, and a statement of auditor independence.</p> <p>(e) <i>The communication process</i>. This section discusses such matters as the form and timing of communications, which vary with the engagement circumstances.</p> <p>(f) <i>Documentation</i>. This section discusses documentation in relation to communications with those charged with governance.</p>	<p>–</p>	<p>Overview not included in new format</p>
<p>7 The principal purposes of communication with those charged with governance are to:</p> <p>(a) Establish a mutual understanding of (i) the respective responsibilities of the auditor, those charged with governance and management in relation to the financial statement audit and (ii) the scope and timing of the audit;</p> <p>(b) Provide those charged with governance with timely observations arising from the audit that are relevant to their responsibility to oversee the financial reporting process; and</p> <p>(c) Obtain from those charged with governance information relevant to the audit.</p> <p>To achieve the principal purposes of communication, the auditor communicates matters clearly with those charged with governance, and reasonably expects those charged with governance to communicate clearly matters they consider relevant to the audit.</p>	<p>5</p> <p>7</p>	

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8. This ISA focuses primarily on communications from the auditor to those charged with governance. However, effective two-way communication is also very important in assisting: <ul style="list-style-type: none"> <li>(a) The auditor and those charged with governance in understanding matters related to the audit in context, and in developing a constructive working relationship. This relationship is developed while maintaining the auditor's independence and objectivity;</li> <li>(b) Those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the financial statements; and</li> <li>(c) The auditor in obtaining from those charged with governance information relevant to the audit. For example, those charged with governance can assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events.</li> </ul>	A1	
9. Although the auditor is responsible for communicating matters required by this ISA, management also has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of this responsibility.	A2	
10. Communication of specific matters required by this ISA is an integral part of every audit. The auditor is not, however, required to perform procedures specifically to identify other significant matters to communicate with those charged with governance.	A3	
11. In some jurisdictions the auditor may be required to notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some countries the auditor has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action.	A4	
12. Laws or regulations may prevent the auditor from communicating certain matters with those charged with governance, or others within the entity. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In such circumstances, it may be appropriate for the auditor to seek legal advice.	A5	
13. <b>The auditor should determine the appropriate person(s) within the entity's governance structure with whom to communicate.</b> The appropriate person(s) may vary depending on the matter to be communicated.	8	
14. Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. For example: <ul style="list-style-type: none"> <li>• In some jurisdictions a supervisory (wholly or mainly non-executive) board exists that is legally separate from an executive (management) board (a "two tier board" structure). In other jurisdictions, both the supervisory and</li> </ul>	A6	

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<p>executive functions are the legal responsibility of a single, or unitary, board (a “one tier board” structure).</p> <ul style="list-style-type: none"> <li>• In some entities, those charged with governance hold positions that are an integral part of the entity’s legal structure, e.g., company directors. In others, e.g., some government entities, a body that is not part of the entity is charged with governance.</li> <li>• In some cases, some or all of those charged with governance are involved in managing the entity. In others, those charged with governance and management comprise different persons.</li> </ul>		
15. In most entities, governance is the collective responsibility of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of management, a council of governors, trustees, or equivalent persons. In some smaller entities, however, one person may be charged with governance, e.g., the owner-manager where there are no other owners, or a sole trustee. When governance is a collective responsibility, a subgroup such as an audit committee or even an individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities. Alternatively, a subgroup or individual may have specific, legally identified responsibilities that differ from those of the governing body.	A7	
16. Such diversity means that it is not possible for this ISA to specify for all audits, the person(s) with whom the auditor is to communicate particular matters. In deciding with whom to communicate matters, the auditor’s understanding of an entity’s governance structure and processes obtained in accordance with ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement” is relevant.	A8	
17. When the appropriate person(s) with whom to communicate is not clearly identifiable from the engagement circumstances, the auditor and the engaging party agree on the relevant person(s) within the entity’s governance structure. Examples include entities where the governance structure is not formally defined, such as some family-owned entities, some not-for-profit organizations, and some government entities.	9 A9	
18. This ISA does not establish requirements regarding the auditor’s communication with an entity’s management or owners unless they are also charged with a governance role.	A10	
19. ISA 600 (Revised), “The Audit of Group Financial Statements” includes specific matters to be communicated by group auditors with those charged with governance. When the entity is a component of a group, the appropriate person(s) with whom the component auditor communicates depends on the engagement circumstances and the matter to be communicated.	A11	
20. When considering communicating with a subgroup of those charged with governance, or an individual, the auditor may take into account such matters as: <ul style="list-style-type: none"> <li>• The respective responsibilities of the subgroup, or individual, and the governing body.</li> </ul>	A12	

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<ul style="list-style-type: none"> <li>• The nature of the matter to be communicated.</li> <li>• Relevant legal or regulatory requirements.</li> <li>• Whether the subgroup, or individual, (a) has the authority to take action in relation to the information communicated, and (b) can provide further information and explanations the auditor may need.</li> <li>• Whether there is also a need to communicate the information, in full or in summary form, with the governing body. This decision may be influenced by the auditor's assessment of how effectively and appropriately the subgroup, or individual, communicates relevant information with the governing body. The auditor may make explicit in agreeing the terms of engagement that, unless prevented by laws or regulations, the auditor retains the right to communicate directly with the governing body.</li> </ul>		
<p>21. Audit committees (or similar subgroups with different names) exist in many jurisdictions. Although their specific authority and functions may differ, communication with the audit committee, where one exists, has become a key element in the auditor's communication with those charged with governance. Good governance principles suggest that:</p> <ul style="list-style-type: none"> <li>• The auditor will be invited to regularly attend meetings of the audit committee</li> <li>• The chair of the audit committee and, when relevant, the other members of the audit committee, will liaise with the auditor periodically.</li> <li>• The audit committee will ordinarily meet the auditor without management present at least annually.</li> </ul>	A13	
<p>22. The auditor considers whether communication with the audit committee alone adequately fulfills the auditor's responsibility to communicate with those charged with governance, taking into account the considerations referred to in paragraph 20. In some circumstances, the auditor may also need to communicate with the governing body.</p>	10	
<p>23. In some cases, all of those charged with governance are involved in managing the entity, e.g., a small business where a single owner manages the entity and no one else has a governance role. In these cases:</p> <p>(a) If matters required by this ISA are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role; and</p> <p>(b) Matters that are required to be communicated but are relevant only to the oversight function of those charged with governance, ordinarily require no action on the part of the auditor because there is no oversight separate from management. These matters are noted in paragraph 36 (c).</p>	11	
<p>24. In such cases, the auditor nonetheless considers whether communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their</p>	12 A14	

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governance capacity. For example, in a company where all directors are family members involved in managing the entity, some of those directors (e.g., one responsible for marketing) may be unaware of significant matters discussed with another director (e.g., one responsible for the preparation of the financial statements).		
<p>25. The auditor communicates the following matters with those charged with governance:</p> <p>(a) The auditor's responsibilities in relation to the financial statement audit (see paragraphs 27-30);</p> <p>(b) The planned scope and timing of the audit (see paragraphs 31-35);</p> <p>(c) Findings from the audit (see paragraphs 36-42); and</p> <p>(d) When appropriate, auditor independence (see paragraphs 43-45).</p>		Navigation guide – not necessary in new format
26. Communication by management with those charged with governance of these matters does not relieve the auditor of the responsibility to also communicate them. Communication of these matters by management may, however, affect the form or timing of the auditor's communication with those charged with governance.	13	
27. <b>The auditor should communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit.</b> This is often included in the engagement letter or other form of contract that records the agreed terms of the engagement.	14	
<p>28. The auditor communicates with those charged with governance that:</p> <p>(a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and</p> <p>(b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>	14	
<p>29. The auditor may also communicate such matters as:</p> <ul style="list-style-type: none"> <li>• The auditor is responsible for performing the audit in accordance with ISAs, which are directed towards the expression of an opinion on the financial statements. The matters that ISAs require to be communicated, therefore, include significant matters arising from the audit of the financial statements that are relevant to those charged with governance in overseeing the financial reporting process.</li> <li>• ISAs do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.</li> <li>• When applicable, the auditor is also responsible for communicating particular matters required by laws or regulations, by agreement with the entity or by additional requirements applicable to the engagement, e.g., the standards of a national professional accountancy body.</li> </ul>	A15	
30. Laws or regulations, an agreement with the entity or additional requirements applicable to the engagement may	A16	



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provide for broader communication with those charged with governance. For example, (a) an agreement with the entity may provide for particular matters to be communicated when they arise from services provided by a firm or network firm other than the financial statement audit; or (b) the mandate of a public sector auditor may provide for matters to be communicated that come to the auditor's attention as a result of other work, such as performance audits.		
<p>31. <b>The auditor should communicate with those charged with governance an overview of the planned scope and timing of the audit.</b> This communication can:</p> <ul style="list-style-type: none"> <li>(a) Assist those charged with governance in, e.g., understanding better the consequences of the auditor's work for their oversight activities, discussing with the auditor issues of risk and materiality, and identifying any areas in which they may request the auditor to undertake additional procedures; and</li> <li>(b) Assist the auditor to understand better the entity and its environment.</li> </ul>	15 A17	
32. Care is required when communicating with those charged with governance about the scope and timing of the audit so as not to compromise the effectiveness of the audit, particularly where some or all of those charged with governance are involved in managing the entity. For example, communicating the nature and timing of detailed audit procedures could reduce the effectiveness of those procedures by making them too predictable.	A18	
<p>33. Matters communicated may include the following:</p> <ul style="list-style-type: none"> <li>• How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error.</li> <li>• The auditor's approach to internal control relevant to the audit.</li> <li>• The application of materiality, focusing on the factors to be considered.</li> </ul>	A19	
<p>34. Other planning matters that it may be appropriate to discuss with those charged with governance include:</p> <ul style="list-style-type: none"> <li>• Where the entity has an internal audit function, the extent to which the auditor will use the work of internal audit, and how the external and internal auditors can best work together in a constructive and complementary manner.</li> <li>• The views of those charged with governance of: <ul style="list-style-type: none"> <li>○ The appropriate person(s) in the entity's governance structure with whom to communicate.</li> <li>○ The allocation of responsibilities between those charged with governance and management.</li> <li>○ The entity's objectives and strategies, and the related business risks that may result in material misstatements.</li> <li>○ Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken.</li> <li>○ Significant communications with regulators.</li> </ul> </li> </ul>	A20	

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<ul style="list-style-type: none"> <li>○ Other matters those charged with governance consider may influence the audit of the financial statements.</li> <li>• The attitudes, awareness, and actions of those charged with governance concerning (a) the entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control, and (b) the detection or possibility of fraud.</li> <li>• The actions of those charged with governance in response to developments in accounting standards, corporate governance practices, exchange listing rules, and related matters.</li> <li>• The responses of those charged with governance to previous communications with the auditor.</li> </ul>		
35. While communication with those charged with governance may assist the auditor to plan the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.	A21	
<p>36. <b>The auditor should communicate with those charged with governance:</b></p> <ul style="list-style-type: none"> <li>(a) <b>The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures</b> (see paragraphs 38-39);</li> <li>(b) <b>Significant difficulties, if any, encountered during the audit</b>(see paragraph 40);</li> <li>(c) <b>Unless all of those charged with governance are involved in managing the entity:</b> <ul style="list-style-type: none"> <li>(i) <b>Material weaknesses, if any, in the design, implementation or operating effectiveness of internal control that have come to the auditor's attention. Such weaknesses should be communicated as soon as practicable;</b></li> <li>(ii) <b>Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management</b> (see paragraph 41); and</li> <li>(iii) <b>Representations the auditor is requesting from management;</b> and</li> </ul> </li> <li>(d) <b>Other matters, if any, arising from the audit that are, in the auditor's professional judgment, significant to the oversight of the financial reporting process</b> (see paragraph 42).</li> </ul>	16	
37. The communication of findings from the audit may include requesting further information from those charged with governance in order to complete the evidence obtained. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.	A22	
38. Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgments about accounting policies and financial statement disclosures. Open and constructive communication about significant qualitative aspects of the entity's accounting practices may include comment on the acceptability of significant	A23	

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accounting practices. Appendix 2 provides guidance on the matters that may be included in this communication.		
39. The auditor explains to those charged with governance why the auditor considers a significant accounting practice not to be appropriate and, when considered necessary, requests changes. If requested changes are not made, it may be appropriate to inform those charged with governance that the auditor will consider the effect of this on the financial statements of the current and future years, and on the auditor's report.	16 (a)A24	
40. Significant difficulties encountered during the audit may include such matters as: <ul style="list-style-type: none"> <li>• Significant delays in management providing required information.</li> <li>• An unnecessarily brief time within which to complete the audit.</li> <li>• Extensive unexpected effort required to obtain sufficient appropriate audit evidence.</li> <li>• The unavailability of expected evidence.</li> <li>• Restrictions imposed on the auditor by management.</li> <li>• Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.</li> </ul> In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion (refer ISA 705, "Modifications to the Opinion in the Independent Auditor's Report").	A25	
41. Significant matters discussed, or subject to correspondence with management may include such matters as: <ul style="list-style-type: none"> <li>• Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement.</li> <li>• Concerns about management's consultations with other accountants on accounting or auditing matters.</li> <li>• Discussions or correspondence in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services.</li> </ul>	A26	
42. Other significant matters arising from the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of fact or material inconsistencies in information accompanying the audited financial statements, that have been corrected.	A27	
43. <b>In the case of listed entities, the auditor should communicate with those charged with governance:</b> <p>(a) <b>A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements; and</b></p> <p>(b) (i) <b>All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This should include total fees charged during the period covered by the financial statements for audit and non-audit services</b></p>	17	

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<p><b>provided by the firm and network firms to the entity and components controlled by the entity. These fees should be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and</b></p> <p><b>(ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.</b></p>		
<p>44. The relationships and other matters, and safeguards to be communicated, vary with the circumstances of the engagement, but generally address:</p> <p>(a) Threats to independence, which can be categorized as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and</p> <p>(b) Safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.</p> <p>Matters communicated may include inadvertent violation of relevant ethical requirements as they relate to auditor independence, and any remedial action taken or proposed.</p>	A28	
<p>45. The auditor considers whether the communications set out in paragraph 43 are also relevant in the case of entities that are not listed entities, particularly those that may be of significant public interest because, as a result of their business, their size or their corporate status, they have a wide range of stakeholders. Examples of such entities might include public sector entities, credit institutions, insurance companies, and pension funds. Communications regarding independence may not be relevant, e.g., where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.</p>	18 A29	
<p>46. Those charged with governance are responsible for ensuring, through oversight of management, that the entity establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.</p>	A30	
<p>47 The auditor may become aware of supplementary matters that do not necessarily relate to the oversight of the financial reporting process but which are, nevertheless, likely to be significant to the responsibilities of those charged with governance in for overseeing the strategic direction of the entity or the entity's obligations related to accountability. Such matters may include, e.g., significant deficiencies in governance structures or processes, and significant decisions or actions by senior management that lack appropriate authorization.</p>	A31	
<p>48 In determining whether to communicate supplementary matters with those charged with governance, the auditor may discuss matters of this kind of which the auditor has become aware with the appropriate level of management, unless</p>	A32	

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it is inappropriate to do so in the circumstances.		
49. If a supplementary matter is communicated, it may be appropriate for the auditor to make those charged with governance aware that: (a) Identification and communication of such matters is incidental to the purpose of the audit, which is to form an opinion on the financial statements; (b) No procedures were carried out with respect to the matter other than any that were necessary to form an opinion on the financial statements; and (c) No procedures were carried out to determine whether other such matters exist.	A33	
50. The communication process will vary with the circumstances, including the size and governance structure of the entity, how those charged with governance operate, and the auditor's view of the significance of matters to be communicated. For example, the auditor may communicate in a less structured manner with those charged with governance of small entities than listed or larger entities, and the frequency of communication may be less.	A34	
51. The auditor seeks to establish with those charged with governance a mutual understanding of the form, timing and expected general content of communications.	19	
52. Clear communication of the auditor's responsibilities (paragraphs 27-30) and the planned scope and timing of the audit (paragraphs 31-35) are intended to form the basis of a mutual understanding, which in turn helps establish effective two-way communication. How this understanding is established will vary, reflecting such factors as the size and governance structure of the entity and how those charged with governance operate. Difficulty in establishing a mutual understanding may indicate that the two-way communication between the auditor and those charged with governance is not adequate for the purpose of the audit (see paragraph 67).	A35	
53. Matters that may be discussed in establishing a mutual understanding include: <ul style="list-style-type: none"> <li>• The purpose of communications. When the purpose is clear, the auditor and those charged with governance are better placed to have a mutual understanding of relevant issues and the expected actions arising from the communication process.</li> <li>• The form in which communications will be made.</li> <li>• The person(s) in the audit team and amongst those charged with governance who will communicate regarding particular matters.</li> <li>• The auditor's expectation that communication will be two-way, and that those charged with governance will communicate with the auditor matters they consider relevant to the audit, e.g. strategic decisions that may significantly affect the nature, timing and extent of audit procedures, the suspicion or the detection of fraud, and</li> </ul>	A36	

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<p>concerns with the integrity or competence of senior management.</p> <ul style="list-style-type: none"> <li>• The process for taking action and reporting back on matters communicated by the auditor.</li> <li>• The process for taking action and reporting back on matters communicated by those charged with governance.</li> </ul>		
<p>54. <b>The auditor should communicate in writing with those charged with governance regarding auditor independence when required by paragraph 43, and significant findings from the audit when, in the auditor’s professional judgment, oral communication would not be adequate.</b> Written communications need not include all matters that arose during the course of the audit (see paragraph 56).</p>	20	
<p>55. Effective communication may involve structured presentations and written reports as well as less structured communications, including discussions. The auditor may communicate matters other than those identified in the preceding paragraph either orally or in writing. Written communications may include an engagement letter that is provided to those charged with governance.</p>	A37	
<p>56. In addition to the significance of a particular matter, the form of communication (e.g., whether to communicate orally or in writing, the extent of detail or summarization in the communication, and whether to communicate in a structured or unstructured manner ) is affected by such factors as:</p> <ul style="list-style-type: none"> <li>• Whether the matter has been satisfactorily resolved.</li> <li>• Whether management has previously communicated the matter.</li> <li>• The size, operating structure, control environment, and legal structure of the entity.</li> <li>• In the case of a special purpose financial statement audit, whether the auditor also audits the entity’s general purpose financial statements.</li> <li>• Legal requirements. In some jurisdictions, a written communication with those charged with governance is required in a prescribed form by local law.</li> <li>• The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.</li> <li>• The amount of ongoing contact and dialogue the auditor has with those charged with governance.</li> <li>• Whether there have been significant changes in the membership of a governing body.</li> </ul>	A38	
<p>57. When a significant matter is discussed with an individual member of those charged with governance, e.g., the chair of an audit committee, it may be appropriate for the auditor to summarize the matter in later communications so that all of those charged with governance have full and balanced information.</p>	A39	
<p>58. Many matters are discussed with management in the ordinary course of an audit, including matters required by this ISA to be communicated with those charged with governance. Such discussions recognize management’s executive</p>	A40	

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responsibility for the conduct of the entity's operations and, in particular, management's responsibility for preparing the financial statements.		
59. Before communicating matters with those charged with governance, the auditor may discuss them with management, unless that is inappropriate. For example, it may not be appropriate to discuss questions of management's competence or integrity with management. In addition to recognizing management's executive responsibility, these initial discussions can clarify facts and issues, and give management an opportunity to provide further information and explanations. Similarly, when the entity has an internal audit function, the auditor may discuss matters with the internal auditor before communicating with those charged with governance.	A41	
60. The requirements of national professional accountancy bodies, laws or regulations may impose obligations of confidentiality that restrict the auditor's communications with those charged with governance. In some circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the auditor may consider obtaining legal advice.	A42	
61. On occasions, those charged with governance may wish to provide third parties, e.g., bankers or certain regulatory authorities, with copies of a written communication from the auditor. In some cases, disclosure to third parties may be illegal or otherwise inappropriate. When a written communication prepared for those charged with governance is provided to third parties, it is important that the third parties be informed that the communication was not prepared with them in mind, e.g. by stating in written communications with those charged with governance: (a) That the communication has been prepared for the sole use of those charged with governance and, where applicable, the group management and the group auditor, and should not be relied upon by third parties; (b) That no responsibility is assumed by the auditor to third parties; and (c) Any restrictions on its disclosure or distribution to third parties.	A43	
62. In certain jurisdictions, particularly in the public sector, the auditor may be required to submit copies of certain reports prepared for those charged with governance to relevant regulatory, funding or other bodies. Similarly, there may be a requirement that reports will be made public. In such circumstances, application of the preceding paragraph is modified appropriately. Further, unless required by laws or regulations to provide a third party with a copy of the auditor's written communications with those charged with governance, the auditor may require the prior consent of those charged with governance before doing so.	A44	
63. <b>Communications with those charged with governance should be on a timely basis.</b>	21	
64. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by those charged	A45	

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<p>with governance. For example:</p> <ul style="list-style-type: none"> <li>• Communications regarding planning matters may often be made early in the audit engagement and, for an initial engagement, may be made as part of agreeing the terms of the engagement.</li> <li>• It may be appropriate to communicate a significant difficulty encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if it is likely to lead to a modified opinion.</li> <li>• Material weaknesses in the design, implementation or operating effectiveness of internal control which have come to the auditor's attention are required to be communicated with management or those charged with governance as soon as practicable.</li> <li>• It may often be appropriate to communicate findings from the audit that are relevant to the financial statements or the auditor's report, including the auditor's views about the qualitative aspects of the entity's accounting practices, before the financial statements are approved.</li> <li>• Communications regarding independence may be appropriate before the financial statements are completed, e.g. at a concluding discussion, and whenever significant judgments are made about threats to independence and related safeguards, e.g., when accepting an engagement to provide non-audit services.</li> <li>• When auditing both general purpose and special purpose financial statements, it may be appropriate to coordinate the timing of communications. .</li> </ul>		
<p>65. Other factors that may be relevant to the timing of communications include:</p> <ul style="list-style-type: none"> <li>• The size, operating structure, control environment, and legal structure of the entity being audited.</li> <li>• Any legal obligation to communicate certain matters within a specified timeframe.</li> <li>• The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.</li> <li>• The time at which the auditor identifies certain matters, e.g., the auditor may not identify a particular matter (e.g., noncompliance with a law) in time for preventive action to be taken, but communication of the matter may enable remedial action to be taken.</li> </ul>	A46	
<p>66. <b>The auditor should evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor should take appropriate action.</b></p>	22	
<p>67. As noted in paragraph 7, effective two-way communication assists both the auditor and those charged with governance. Further, ISA 315 identifies participation by those charged with governance, including their interaction</p>	A47	



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<p>with internal audit, if any, and external auditors, as an element of the entity's control environment. Inadequate two-way communication may indicate an unsatisfactory control environment and influence the auditor's assessment of the risks of material misstatements.</p>		
<p>68. The auditor need not design specific procedures to support the evaluation required by paragraph 66; rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. Such observations may include:</p> <ul style="list-style-type: none"> <li>• The appropriateness and timeliness of actions taken by those charged with governance in response to matters raised by the auditor. Where significant matters raised in previous communications have not been dealt with effectively, it may be appropriate for the auditor inquire as to why appropriate action has not been taken, and to considers raising the point again. This avoids the risk of giving an impression that the auditor is satisfied that the matter has been adequately addressed or is no longer significant.</li> <li>• The apparent openness of those charged with governance in their communications with the auditor.</li> <li>• The willingness and capacity of those charged with governance to meet with the auditor without management present.</li> <li>• The apparent ability of those charged with governance to fully comprehend matters raised by the auditor, e.g., the extent to which those charged with governance probe issues, and question recommendations made to them.</li> <li>• Difficulty in establishing with those charged with governance a mutual understanding of the form, timing and expected general content of communications.</li> <li>• Where all or some of those charged with governance are involved in managing the entity, their apparent awareness of how matters discussed with the auditor affect their broader governance responsibilities, as well as their management responsibilities.</li> <li>• Whether the two-way communication between the auditor and those charged with governance meets applicable legal and regulatory requirements.</li> </ul>	<p>23  A48</p>	
<p>69. If the two-way communication between the auditor and those charged with governance is not adequate, there is a risk the auditor may not have obtained all the audit evidence required to form an opinion on the financial statements. The auditor considers the effect, if any, on the auditor's assessment of the risks of material misstatements. If the situation cannot be resolved, the auditor may take such actions as:</p> <ul style="list-style-type: none"> <li>• Modifying the auditor's opinion on the basis of a scope limitation.</li> <li>• Obtaining legal advice about the consequences of different courses of action.</li> <li>• Communicating with third parties (e.g., a regulator), or a higher authority in the governance structure that is</li> </ul>	<p>24  A49</p>	

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outside the entity, such as the owners of a business (e.g. shareholders in a general meeting), or the responsible government minister or Parliament in the public sector. <ul style="list-style-type: none"><li>• Withdrawing from the engagement where permitted in the relevant jurisdiction.</li></ul>		
70. <b>Where matters by this ISA to be communicated are communicated orally, the auditor should document them.</b> Documentation may include a copy of minutes prepared by the entity retained on the audit file where those minutes are an appropriate record of the discussion.	25 A50	
71. This ISA is effective for audits of financial statements for periods beginning on or after [date].	4	