

INTOSAI



*Directriz de
auditoría financiera
– Comunicación con
los encargados de la
gobernanza*

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Nota de Práctica¹ para la (Propuesta de)² Norma Internacional de Auditoría [*International Standard on Auditing (ISA)*] 260 (revisada y con nueva redacción) – Comunicación con los encargados de la gobernanza

Fundamentos

Esta Nota de Práctica proporciona orientaciones suplementarias a los auditores del sector público sobre la (propuesta) Norma Internacional de Auditoría (ISA) 260 (revisada y con nueva redacción) – Comunicación con los encargados de la gobernanza. Esta Nota de Práctica es para leerse en conjunto con la ISA correspondiente. La Nota de Práctica entra en vigor en la misma fecha que la ISA.

Descripción de la ISA

El propósito de la (propuesta) ISA 260 (revisada y con nueva redacción) es la responsabilidad del auditor de comunicarse con los encargados de la gobernanza en relación con una auditoría de estados financieros. Aunque la ISA se aplica con independencia de la estructura o el tamaño de la estructura de gobernanza de una entidad, se aplican consideraciones particulares cuando todos los encargados de la gobernanza están implicados en la dirección de una entidad, y en las entidades cuyas acciones cotizan en bolsa. La ISA no estipula requisitos referentes a la comunicación del auditor con la gerencia o los propietarios de una entidad, a menos que éstos también desempeñen una función de gobernanza.

La (propuesta) ISA 260 (revisada y con nueva redacción) entra en vigor para las auditorías de estados financieros en los períodos que comienzan en o después de (insertar fecha)³

Contenido de la Nota de Práctica

- P1. La Nota de Práctica sigue a los encabezamientos de la ISA y proporciona orientaciones adicionales para los auditores del sector público en relación con estas áreas:
- a. Ámbito de la ISA
 - b. Los encargados de la gobernanza

¹ Todas las Notas de Práctica se toman en consideración junto con las Consideraciones Generales de las Directrices de Auditoría Financiera.

² Esta Nota de Práctica se inspira en el Proyecto de Propuesta de la ISA 260 (revisada y con nueva redacción), que fue publicado por el International Auditing and Assurance Standards Board (IAASB) en octubre de 2006. Podría necesitarse actualizarla el IAASB apruebe y publique la versión final de la ISA 260 (revisada y con nueva redacción).

³ Esta fecha no será anterior al 15 de diciembre de 2008.

- c. Asuntos que deberán comunicarse
- d. El proceso de comunicación

Aplicabilidad de la ISA en la auditoría del sector público

- P2. La (propuesta) ISA 260 (revisada y con nueva redacción) es aplicable para los auditores de entidades del sector público en su función de auditores de los estados financieros.

Orientaciones adicionales sobre cuestiones del sector público

Ámbito de la ISA

- P3. Los objetivos de una auditoría de estados financieros del sector público a menudo son más amplios que limitarse a expresar una opinión sobre si los estados financieros han sido preparados, en todos los aspectos importantes, de conformidad con el marco aplicable de información financiera (es decir, el ámbito de las ISA). Los mandatos de auditoría, o las obligaciones de las entidades del sector público, que proceden de la legislación, la reglamentación, las directrices ministeriales, los requisitos de la política gubernamental o las disposiciones del poder legislativo pueden implicar objetivos adicionales. Estos objetivos adicionales pueden incluir responsabilidades de auditoría y de información, por ejemplo, relacionadas con la información cuando el auditor haya encontrado casos de incumplimiento de mandatos, incluidos los relacionados con el presupuesto y la rendición de cuentas, y/o la información sobre la eficacia del control interno. El párrafo 3 de la (propuesta) ISA 260 (revisada y con nueva redacción) reconoce que podría existir la necesidad de comunicar otros asuntos, como consecuencia de la ley o reglamentación, a los encargados de la gobernanza, mediante un acuerdo con la entidad o mediante requisitos adicionales aplicables al compromiso de auditoría.

Los encargados de la gobernanza

- P4. El párrafo 7 de la (propuesta) ISA 260 (revisada y con nueva redacción) estipula que el auditor debe determinar cuáles son las personas o la persona adecuada dentro de la estructura de gobernanza de la entidad con la que va a comunicarse. En el sector público, las responsabilidades de gobernanza pueden corresponder a diversos niveles organizacionales, así como a diversas funciones (es decir, tanto verticalmente como horizontalmente). Como consecuencia, puede haber casos en los que existan varios grupos distintos que se encarguen de la gobernanza. Además, una auditoría del sector público podría incluir tanto los objetivos de los estados financieros como los objetivos de cumplimiento, y en algunos casos, esto podría implicar a diversos órganos de gobernanza.
- P5. Cuando se comuniquen asuntos a subgrupos de encargados de la gobernanza, como se expone en el párrafo 9 de la (propuesta) ISA 260 (revisada y con nueva redacción), los auditores del sector público quizás necesiten transmitir la información, en su totalidad o resumida, al órgano de gobierno en su conjunto. Esto es particularmente relevante en el sector público, donde no es

infrecuente que los encargados de la gobernanza participen en la dirección de la entidad. Los auditores del sector público necesitan mostrarse especialmente sensibles con objeto de satisfacer las necesidades y expectativas del poder legislativo o de los reguladores adecuados acerca de las cuestiones comunicadas a otros niveles de gobernanza, en particular cuando los asuntos pueden ser objeto de especulación o de un amplio interés público.

Asuntos que deberán comunicarse

- P6. El párrafo 13 de la (propuesta) ISA 260 (revisada y con nueva redacción) requiere que el auditor comunique a los encargados de la gobernanza una visión general del ámbito y el tiempo previstos para la auditoría. En el sector público este requisito puede lograrse por diversos medios. Por ejemplo, el ámbito y el tiempo de la auditoría pueden definirse en la legislación pertinente o en el mandato de auditoría, o los auditores del sector público pueden comunicar una visión general del ámbito y el tiempo previsto de la auditoría en la carta de compromiso.
- P7. El párrafo A15 (b) de la (propuesta) ISA 260 (revisada y con nueva redacción) estipula que la comunicación referente al ámbito y el tiempo previsto de la auditoría puede ayudar al auditor a comprender mejor la entidad y su entorno. Los auditores del sector público pueden considerar útil comunicar su punto de vista acerca de cuáles son los componentes de la información financiera que es preciso incluir en los estados financieros de la entidad, y emplear la respuesta de la entidad para verificar su punto de vista. Por ejemplo, puede resultar difícil determinar si, y en qué medida, las empresas conjuntas (incluidas las entidades del sector público o privado) deben incluirse en los estados financieros consolidados de una entidad fiscalizada.
- P8. El párrafo 14 de la (propuesta) ISA 260 (revisada y con nueva redacción) enumera los descubrimientos importantes de la auditoría que el auditor está obligado a comunicar a los encargados de la gobernanza. A menudo, los auditores del sector público son los auditores designados por el gobierno, o forman parte de éste y de su administración. En tal situación los auditores del sector público tienen acceso a la información procedente de otras entidades y de sus auditorías, lo cual podría ser relevante para los encargados de la gobernanza. Ejemplos de esto pueden ser errores importantes en las transacciones con la entidad auditada, que también afecten a otras entidades, o los diseños de los controles pertinentes que han dado origen a mejoras de eficiencia en otras entidades. Comunicar este tipo de información a los encargados de la gobernanza puede añadir valor a la auditoría cuando las circunstancias lo permitan. Sin embargo, la legislación, las reglamentaciones, las directrices ministeriales o los requisitos éticos pueden impedir la comunicación de este tipo de información.
- P9. La independencia y objetividad de los auditores del sector público son decisivas para (a) hacer que los gobiernos rindan cuentas al poder legislativo y al público en general, y (b) ayudar a descubrir amenazas en la correcta administración de los fondos públicos, por ejemplo la posible corrupción. Los requisitos que figuran en el párrafo 15 de la (propuesta) ISA 260 (revisada y con nueva redacción) acerca de la comunicación del cumplimiento de los requisitos éticos pertinentes que hacen referencia a la independencia que se les aplica a los auditores del sector público. Además de las áreas que aparecen en el Código de Ética para Contables Profesionales publicado por la International

Federation of Accountants (IFAC), las cuestiones del Código de Ética de la INTOSAI, por ejemplo la neutralidad política, pueden asumir una importancia particular en el contexto del sector público.

El proceso de comunicación

- P10. Los párrafos 19 y 20 de la (propuesta) ISA 260 (revisada y con nueva redacción) estipulan que el auditor evalúe si la comunicación bidireccional entre el auditor y los encargados de la gobernanza ha sido adecuada para el propósito de la auditoría. Si la comunicación bidireccional no es la adecuada, la ISA exige que el auditor lleve a cabo la acción apropiada. En el sector público la acción apropiada puede incluir la comunicación con el poder legislativo, los reguladores pertinentes o las agencias que conceden los fondos.

*Proposed Redrafted International Standard on
Auditing*

ISA 260 (Revised), Communication
with Those Charged with Governance



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of Accountants**

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The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC), approved the exposure draft of International Standard on Auditing (ISA) 260 (Revised and Redrafted), “Communication with Those Charged with Governance” for publication in October 2006. **The proposed ISA may be modified in light of comments received before being issued in final form.**

The objective of the IAASB is to serve the public interest by setting high-quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The mission of IFAC is to serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession’s expertise is most relevant.

Copies of the exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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EXPOSURE DRAFT
PROPOSED INTERNATIONAL STANDARD ON AUDITING 260
(REVISED AND REDRAFTED)
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

(Effective for audits of financial statements for periods beginning on or after [date])*

CONTENTS

	Paragraph
Introduction	
Scope of this ISA	1-3
Effective Date	4
Objectives	5
Definitions	6
Requirements	
Those Charged with Governance.....	7-10
Matters to be Communicated	11-15
The Communication Process	16-20
Documentation.....	21
Application and Other Explanatory Material	
The Role of Communication.....	A1-A5
Those Charged with Governance.....	A6-A12
Matters to be Communicated	A13-A31
The Communication Process	A32-A48
Documentation.....	A49
Appendix 1: Requirements of ISQC 1 and Other ISAs that Refer to Communications with Those Charged with Governance	
Appendix 2: Qualitative Aspects of Accounting Practices	

International Standard on Auditing (ISA) 260 (Revised and Redrafted), “Communication with Those Charged with Governance” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services,” which sets out the authority of ISAs.

* See footnote 1.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to communicate 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. 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.
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 when those charged with governance have a responsibility to oversee the preparation and presentation of the other historical financial information.
3. Recognizing the importance of effective two-way communication during an audit of financial statements, 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. (Ref: Para. A28-A31)

Effective Date

4. This ISA is effective for audits of financial statements for periods beginning on or after [date].¹

Objectives

5. The objectives of the auditor are to:
 - (a) Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and the scope and timing of the audit;
 - (b) Obtain from those charged with governance, information relevant to the audit; and
 - (c) Provide those charged with governance with timely observations arising from the audit that are relevant to their responsibility to oversee the financial reporting process. (Ref: Para. A1-A5)

Definitions

6. For purposes of the ISAs, the following terms have the meanings attributed below:

¹ This date will not be earlier than December 15, 2008.

- (a) “Those charged with governance” means the person(s)² 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 of a private or public sector entity, or an owner-manager. In some cases, those charged with governance are responsible for approving³ the entity’s financial statements (in other cases management has this responsibility). For discussion of the diversity of governance structures, see paragraphs A6-A12.
- (b) “Management” means the person(s)² 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 approving³ the entity’s financial statements (in other cases those charged with governance have this responsibility).

Requirements

Those Charged with Governance

7. The auditor shall determine the appropriate person(s) within the entity’s governance structure with whom to communicate. The appropriate person(s) may vary depending on the matter to be communicated.
8. When the appropriate person(s) with whom to communicate is not clearly identifiable from the engagement circumstances, the auditor shall agree with the engaging party on the relevant person(s) within the entity’s governance structure. (Ref: Para. A6-A9)

Communication with a Subgroup of Those Charged with Governance

9. The auditor shall consider whether communication with a subgroup of those charged with governance, e.g., an audit committee, or an individual, adequately fulfills the auditor’s responsibility to communicate with those charged with governance. In some circumstances, the auditor may also need to communicate with the governing body. (Ref: Para. A10-A11)

When All of Those Charged with Governance are Involved in Managing the Entity

10. 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, 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. These matters are noted in paragraph 14(c).

² “Person” in this context could be an organization, e.g., a corporate trustee (i.e., not necessarily a “natural person”).

³ “Approving” in this context means they have the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared.

The auditor shall nonetheless consider whether communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity. (Ref: Para. A12)

Matters to be Communicated

11. Communication by management with those charged with governance of matters the auditor is required to communicate 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.

The Auditor's Responsibilities in Relation to the Financial Statement Audit

12. The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including 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.

This communication is often included in the engagement letter or other form of contract that records the agreed terms of the engagement. (Ref: Para. A13-A14)

Planned Scope and Timing of the Audit

13. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit. (Ref: Para. A15-A19)

Significant Findings from the Audit

14. The auditor shall communicate with those charged with governance (Ref: Para. A20):
 - (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice not to be appropriate and, when considered necessary, shall request changes (Ref: Para. A21-A22);
 - (b) Significant difficulties, if any, encountered during the audit (Ref: Para. A23);
 - (c) Unless all of those charged with governance are involved in managing the entity:
 - (i) Material weaknesses, if any, in the design, implementation or operating effectiveness of internal control that have come to the auditor's attention and have been communicated to management as required by ISA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment," or ISA 330, "The Auditor's Responses to Assessed Risks;"
 - (ii) Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management (Ref: Para. A24); and

- (iii) Representations the auditor is requesting from management; and
- (d) 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 (Ref: Para. A25).

Auditor Independence

15. In the case of listed entities,⁴ the auditor shall communicate with those charged with governance:
- (a) A statement that the engagement team and others in the firm as appropriate,⁵ the firm and, when applicable, network firms have complied with relevant ethical requirements⁶ regarding independence; and
 - (b)
 - (i) 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.⁷ This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall 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
 - (ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. (Ref: Para. A26-A27)

The Communication Process

Establishing the Communication Process

16. The auditor shall communicate with those charged with governance the form, timing and expected general content of communications. (Ref: Para. A32-A40)

Forms of Communication

17. The auditor shall communicate in writing with those charged with governance regarding auditor independence when required by paragraph 15, and significant findings from the audit when, in the auditor's professional judgment, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit. (Ref: Para. A41-A43)

⁴ The *IFAC Code of Ethics for Professional Accountants* (IFAC Code) defines a listed entity as: "An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body."

⁵ The IFAC Code requires that "members of assurance teams, firms and, when applicable, network firms be independent of assurance clients." In addition to the members of the engagement team, the IFAC Code includes as part of the assurance team, "all others within a firm who can directly influence the outcome of the assurance engagement." See the definitions section of the IFAC Code for further elaboration.

⁶ Relevant ethical requirements ordinarily comprise the IFAC Code together with national requirements that are more restrictive.

⁷ This is a requirement of the IFAC Code.

Timing of Communications

18. The auditor shall communicate with those charged with governance on a timely basis. (Ref: Para. A44-A45)

Adequacy of the Communication Process

19. The auditor shall 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 shall take appropriate action to address the effectiveness of the communication process. 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 shall consider the effect, if any, on the auditor's assessment of the risks of material misstatements.
20. The auditor need not design specific procedures to support the evaluation required by the preceding paragraph; rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. (Ref: Para. A46-48)

Documentation

21. Where matters required by this ISA to be communicated are communicated orally, the auditor shall document them, and how, and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication. (Ref: Para. A49)

* * *

Application and Other Explanatory Material

The Role of Communication (Ref: Para. 5)

- A1. 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:
- (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;
 - (b) The auditor in obtaining from those charged with governance information relevant to the audit. For example, those charged with governance may 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; and
 - (c) 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.
- A2. 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.

- A3. Clear 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.

Legal Considerations

- A4. 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.
- A5. 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.

Those Charged with Governance (Ref: Para. 7-8)

- A6. Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. For example:
- 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 executive functions are the legal responsibility of a single, or unitary, board (a “one tier board” structure).
 - 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.
 - 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.
- A7. 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.
- A8. 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. Also, in some cases the appropriate person(s) with whom to communicate may not be clearly

identifiable from the engagement circumstances, e.g., entities where the governance structure is not formally defined, such as some family-owned entities, some not-for-profit organizations, and some government entities. 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 is relevant.

- A9. [Proposed] 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. In some cases, a number of components may be conducting the same businesses within the same system of internal control and using the same accounting practices. Where those charged with governance of those components are the same (for example, common board of directors), duplication may be avoided by dealing with these components concurrently for the purpose of communication.

Communication with a Subgroup of Those Charged with Governance (Ref: Para. 9)

- A10. When considering communicating with a subgroup of those charged with governance, or an individual, the auditor may take into account such matters as:
- The respective responsibilities of the subgroup, or individual, and the governing body.
 - The nature of the matter to be communicated.
 - Relevant legal or regulatory requirements.
 - 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.
 - 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.
- A11. 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:
- The auditor will be invited to regularly attend meetings of the audit committee.
 - The chair of the audit committee and, when relevant, the other members of the audit committee, will liaise with the auditor periodically.
 - The audit committee will meet the auditor without management present at least annually.

When All of Those Charged with Governance are Involved in Managing the Entity (Ref: Para. 10)

A12. In some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognize this position. In such cases, communication with person(s) with management responsibilities may not adequately inform all of those with whom the auditor would otherwise communicate in their 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).

Matters to be Communicated

The Auditor's Responsibilities in Relation to the Financial Statement Audit (Ref: Para. 12)

A13. The auditor may communicate such matters as:

- The auditor's responsibility for performing the audit in accordance with ISAs, which is 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.
- The fact that ISAs do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.
- When applicable, the auditor's responsibility 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.

A14. Laws or regulations, an agreement with the entity or additional requirements applicable to the engagement may 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.

Planned Scope and Timing of the Audit (Ref: Para. 13)

A15. Communication regarding the planned scope and timing of the audit may:

- (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
- (b) Assist the auditor to understand better the entity and its environment.

A16. 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 may reduce the effectiveness of those procedures by making them too predictable.

A17. Matters communicated may include the following:

- How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error.
- The auditor's approach to internal control relevant to the audit.
- The application of materiality, focusing on the factors to be considered.

A18. Other planning matters that it may be appropriate to discuss with those charged with governance include:

- 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.
- The views of those charged with governance of:
 - The appropriate person(s) in the entity's governance structure with whom to communicate.
 - The allocation of responsibilities between those charged with governance and management.
 - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
 - Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken.
 - Significant communications with regulators.
 - Other matters those charged with governance consider may influence the audit of the financial statements.
- 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.
- The actions of those charged with governance in response to developments in accounting standards, corporate governance practices, exchange listing rules, and related matters.
- The responses of those charged with governance to previous communications with the auditor.

A19. 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.

Significant Findings from the Audit (Ref: Para. 14)

A20. The communication of findings from the audit may include requesting further information from those charged with governance in order to complete the audit 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.

Significant Qualitative Aspects of Accounting Practices (Ref: Para. 14 (a))

A21. 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 accounting practices. Appendix 2 provides guidance on the matters that may be included in this communication.

A22. If requested changes are not made to a significant accounting practice the auditor considers to be inappropriate, 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.

Significant Difficulties Encountered During the Audit (Ref: Para. 14 (b))

A23. Significant difficulties encountered during the audit may include such matters as:

- Significant delays in management providing required information.
- An unnecessarily brief time within which to complete the audit.
- Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
- The unavailability of expected information.
- Restrictions imposed on the auditor by management.
- Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.

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").

Significant Matters Discussed, or Subject to Correspondence with Management (Ref: Para. 14 (c) (ii))

A24. Significant matters discussed, or subject to correspondence with management may include such matters as:

- Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement.
- Concerns about management's consultations with other accountants on accounting or auditing matters.

- 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.

Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 14 (d))

A25. 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.

Auditor Independence (Ref: Para. 15)

A26. The relationships and other matters, and safeguards to be communicated, vary with the circumstances of the engagement, but generally address:

- (a) Threats to independence, which may be categorized as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and
- (b) Safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.

Matters communicated may include inadvertent violation of relevant ethical requirements as they relate to auditor independence, and any remedial action taken or proposed.⁸

A27. The communication requirements relating to auditor independence that apply in the case of listed entities may also be relevant in the case of some other 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 entities that are not listed entities but where communication of auditor independence may be appropriate include public sector entities, credit institutions, insurance companies, and retirement benefit 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.

Supplementary Matters (Ref: Para. 3)

A28. 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.

A29. 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 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,

⁸ The IFAC Code includes guidance on safeguards that could be applied if there has been an inadvertent violation relating to a financial interest in an assurance client.

and significant decisions or actions by senior management that lack appropriate authorization.

- A30. 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 it is inappropriate to do so in the circumstances.
- A31. 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.

The Communication Process

Establishing the Communication Process (Ref: Para. 16)

- A32. Clear communication of the auditor's responsibilities, the planned scope and timing of the audit, and the expected general content of communications helps establish the basis for effective two-way communication.
- A33. Matters that may also contribute to effective two-way communication include discussion of:
- 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.
 - The form in which communications will be made.
 - The person(s) in the audit team and amongst those charged with governance who will communicate regarding particular matters.
 - 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 concerns with the integrity or competence of senior management.
 - The process for taking action and reporting back on matters communicated by the auditor.
 - The process for taking action and reporting back on matters communicated by those charged with governance.
- A34. 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. Difficulty in establishing effective two-way communication may indicate that the communication

between the auditor and those charged with governance is not adequate for the purpose of the audit (see paragraph A46).

Considerations Specific to Smaller Entities

A35. In the case of audits of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of listed or larger entities.

Communication with Management

A36. Many matters may be 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 responsibility for the conduct of the entity's operations and, in particular, management's responsibility for preparing the financial statements.

A37. 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 may 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.

Confidentiality

A38. 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.

A39. 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.

A40. 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.

Forms of Communication (Ref: Para. 17)

A41. 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 paragraph 17 either orally or in writing. Written communications may include an engagement letter that is provided to those charged with governance.

A42. 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) may be affected by such factors as:

- Whether the matter has been satisfactorily resolved.
- Whether management has previously communicated the matter.
- The size, operating structure, control environment, and legal structure of the entity.
- In the case of a special purpose financial statement audit, whether the auditor also audits the entity's general purpose financial statements.
- Legal requirements. In some jurisdictions, a written communication with those charged with governance is required in a prescribed form by local law.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The amount of ongoing contact and dialogue the auditor has with those charged with governance.
- Whether there have been significant changes in the membership of a governing body.

A43. 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.

Timing of Communications (Ref: Para. 18)

A44. 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 with governance. For example:

- 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.
- 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. Similarly, it may often be appropriate to communicate material weaknesses in the design, implementation or operating effectiveness of internal control that have come to the auditor's attention as soon as practicable.

- Communications regarding independence may be appropriate whenever significant judgments are made about threats to independence and related safeguards, e.g., when accepting an engagement to provide non-audit services, and at a concluding discussion. A concluding discussion may also be an appropriate time to communicate findings from the audit, including the auditor's views about the qualitative aspects of the entity's accounting practices.
- When auditing both general purpose and special purpose financial statements, it may be appropriate to coordinate the timing of communications.

A45. Other factors that may be relevant to the timing of communications include:

- The size, operating structure, control environment, and legal structure of the entity being audited.
- Any legal obligation to communicate certain matters within a specified timeframe.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- 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.

Adequacy of the Communication Process (Ref: Para. 19-20)

A46. As noted in paragraph A1, 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 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.

A47. Observations resulting from audit procedures performed for other purposes that may support the auditor's evaluation of the two-way communication between the auditor and those charged with governance may include:

- 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 to inquire as to why appropriate action has not been taken, and to consider 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.
- The apparent openness of those charged with governance in their communications with the auditor.
- The willingness and capacity of those charged with governance to meet with the auditor without management present.

- 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.
- Difficulty in establishing with those charged with governance a mutual understanding of the form, timing and expected general content of communications.
- 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.
- Whether the two-way communication between the auditor and those charged with governance meets applicable legal and regulatory requirements.

A48. If the two-way communication between the auditor and those charged with governance is not adequate and the situation cannot be resolved, the auditor may take such actions as:

- Modifying the auditor's opinion on the basis of a scope limitation.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties (e.g., a regulator), or a higher authority in the governance structure that is 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.
- Withdrawing from the engagement where permitted in the relevant jurisdiction.

Documentation (Ref: Para. 21)

A49. Documentation of oral communication may include a copy of minutes prepared by the entity retained on the audit file where those minutes are an appropriate record of the communication.

Appendix 1
(Ref: Para. 3)

Requirements of ISQC 1 and Other ISAs that Refer to Communications with Those Charged With Governance⁹

The following lists paragraphs in ISQC 1 and other ISAs effective as of [date], unless noted otherwise, that contain specific requirements to communicate with “those charged with governance” (or “board of directors,” “audit committee,” “supervisory board,” or “persons ultimately responsible for the overall direction of the entity”). It does not list requirements to communicate with management. These paragraphs are to be understood and applied in the context of the accompanying material in the Standards from which they come.

ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”
[Effective June 15, 2005]

42. **The firm should assign responsibility for each engagement to an engagement partner. The firm should establish policies and procedures requiring that:**
- (a) **The identity and role of the engagement partner are communicated to key members of client management and those charged with governance; ...**

ISA 210, “Terms of Audit Engagements” [Amended as a result of ISA 800 (Revised). Close off document approved October 2006]

19. **If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to report to other parties, such as the board of directors or shareholders, the circumstances necessitating the withdrawal.**

ISA 230, “Audit Documentation” [Effective June 15, 2006]

16. **The auditor should document discussions of significant matters with management and others on a timely basis.**
17. ... Others with whom the auditor may discuss significant matters include those charged with governance ...

ISA 240 (Redrafted), “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements” [To be issued December 2006]

21. The auditor shall make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.

⁹ Not all Standards listed in this Appendix have yet been redrafted following the new clarity drafting conventions.

38. If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

...

- (c) If the auditor withdraws:
 - (i) Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and ...

40. If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.

41. Unless all of those charged with governance are involved in managing the entity, if the auditor has identified or suspects fraud involving:

- (a) Management;
- (b) Employees who have significant roles in internal control; or
- (c) Others where the fraud results in a material misstatement in the financial statements,

the auditor shall communicate these matters to those charged with governance on a timely basis. If the auditor suspects fraud involving management, the auditor shall communicate these suspicions to those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit.

42. In accordance with ISA 260, "The Auditor's Communication with Those Charged with Governance," the auditor shall communicate with those charged with governance any other matters related to fraud that are, in the auditor's judgment, relevant to their responsibilities.

ISA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements"
[Effective December 15, 2004]

32. **The auditor should, as soon as practicable, either communicate with those charged with governance, or obtain evidence that they are appropriately informed, regarding noncompliance that comes to the auditor's attention.** However, the auditor need not do so for matters that are clearly inconsequential or trivial and may reach agreement in advance on the nature of such matters to be communicated.

33. **If in the auditor's judgment the noncompliance is believed to be intentional and material, the auditor should communicate the finding without delay.**

34. **If the auditor suspects that members of senior management, including members of the board of directors, are involved in noncompliance, the auditor should report the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or a supervisory board.** Where no higher authority exists, or if the auditor believes that the report may not be acted upon or is unsure as to the person to whom to report, the auditor would consider seeking legal advice.

ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment” [To be issued December 2006]

32. The auditor shall communicate material weaknesses in internal control identified during the audit on a timely basis to management at an appropriate level of responsibility, and, as required by ISA 260, “The Auditor’s Communication with Those Charged with Governance,” with those charged with governance (unless all of those charged with governance are involved in managing the entity).

ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks” [To be issued December 2006]

19. The auditor shall communicate material weaknesses in internal control identified during the audit on a timely basis to management at an appropriate level of responsibility and, as required by ISA 260, “The Auditor’s Communication with Those Charged with Governance,” with those charged with governance (unless all of those charged with governance are involved in managing the entity)

Proposed ISA 450 (Redrafted), “Evaluation of Misstatements Identified during the Audit” [Exposure draft]

15. The auditor shall communicate with those charged with governance¹⁰ uncorrected misstatements and the effect that they may have on the opinion in the auditor’s report, and request their correction. The written representation obtained from management in accordance with paragraph 11 shall form part of this communication. In communicating the effect that material uncorrected misstatements may have on the opinion in the auditor’s report, the auditor shall address them individually. (Ref: Para. A20)
16. The auditor shall communicate with those charged with governance the reasons for, and the implications of a failure to correct misstatements, having regard to the size and nature of the misstatement judged in the surrounding circumstances, including possible implications in relation to future financial statements. (Ref: Para. A21)
17. The auditor shall communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Proposed ISA 550 (Revised and Redrafted), “Related Parties” [Exposure draft]

21. If the auditor identifies related party relationships or transactions not previously identified or disclosed by management, the auditor shall:
- (d) If the non-identification or non-disclosure appears intentional, (i) communicate this information to those charged with governance, and
22. The auditor shall obtain written representations from management and, where appropriate, those charged with governance concerning:
- (a) The completeness and accuracy of information provided to the auditor regarding related party relationships and transactions;

¹⁰ In accordance with ISA 260 (Revised), “Communication with Those Charged with Governance,” if this matter has been communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matter need not be communicated again with those same person(s) in their governance role.

- (b) The appropriateness of related party disclosures in the financial statements; and
 - (c) The appropriateness of the accounting for related party relationships and transactions, having particular regard to their business rationale.
24. Unless all of those charged with governance are involved in managing the entity, the auditor shall, in order to establish a common understanding with them and to alert them to significant related party relationships and transactions of which they may not have been aware, communicate with them:
- (a) The nature, extent, business rationale and disclosure of significant related party relationships and transactions, including those involving actual or perceived conflicts of interest; and
 - (b) Significant issues identified during the audit regarding the entity's related party relationships and transactions.

ISA 570, "Going Concern" [Effective December 15, 2004] [Conforming amendment issued with this ISA]

- 39a. **The auditor should communicate with those charged with governance events or conditions the auditor has identified that may cast significant doubt on the entity's ability to continue as a going concern.**

Proposed ISA 600 (Revised and Redrafted), "The Audit of Group Financial Statements"
[Exposure draft]

47. If fraud has been identified in components, or information indicates that a fraud may exist, the group auditor shall communicate this as soon as practicable to group management. If the group auditor believes or suspects that group or component management may be involved in the fraud, the group auditor shall communicate this to those charged with governance of the group.
48. Where another auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the group auditor becomes aware of matters that may be significant to the financial statements of the component of which component management may be unaware, the group auditor shall request group management to inform component management of such matters. If group management refuses to communicate the matter to component management, the group auditor shall discuss the matter with those charged with governance of the group.
49. In a group audit, the group auditor shall communicate with those charged with governance of the group the following matters in addition to those required by [proposed] ISA 260, "Communication with Those Charged with Governance:"
- (a) The planned work to be performed on the financial information of the components.
 - (b) The group auditor's planned involvement in the work to be performed by the other auditors on the financial information of significant components.
 - (c) Instances where the group auditor's evaluation of the work of another auditor gave rise to a concern about the quality of the work performed by that other auditor.

- (d) Any limitations on the group audit. For example, where the group auditor's access to component information, those charged with governance of components, component management, or the other auditors (including relevant audit documentation sought by the group auditor) may have been restricted.

ISA 700, "The Independent Auditor's Report on General Purpose Financial Statements" [Amended as a result of ISA 800 (Revised). Close off document approved October 2006]

- 52. **The auditor should date the report on the financial statements no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements. Sufficient appropriate audit evidence should include evidence that all statements that comprise the financial statements have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.**
- 55. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements that comprise the financial statements have been prepared ...

ISA 705, "Modifications to the Independent Auditor's Report" [Close off document approved July 2006]

- 31. **If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit which the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request the removal of the limitation. If management refuses, the auditor should communicate the matter with those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence on which to base an unmodified opinion. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor should determine the implications as follows:**
 - (a) **If the possible effects of the scope limitation are material but not pervasive to the financial statements, the auditor should qualify the opinion; or**
 - (b) **If the possible effects of the scope limitation are both material and pervasive to the financial statements so that a qualification of the opinion would be inadequate to communicate the gravity of the situation:**
 - (i) **The auditor should resign from the audit; or**
 - (ii) **If resignation from the audit before issuing the auditor's report is not practicable or possible, the auditor should disclaim an opinion.**

In relation to subparagraph (b)(i), if the auditor is aware of matters that would have given rise to a modification of the opinion regarding misstatements identified during the audit, the auditor should communicate such matters to those charged with governance before resigning.

- 38. **When the auditor expects to modify the opinion in the auditor's report, the auditor should communicate with those charged with governance the circumstances that lead to the expected modification and the proposed wording of the modification.**

ISA 706, “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report” [Close-off document approved July 2006]

19. **When the auditor expects to include an Emphasis of Matter or an Other Matter(s) paragraph in the auditor’s report, the auditor should communicate with those charged with governance regarding this expectation, and the proposed wording of this paragraph.**

ISA 720, “Other Information in Documents Containing Audited Financial Statements”
[Effective December 15, 2004]

18. **If the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor should consider taking further appropriate action.** The actions taken could include such steps as notifying those persons ultimately responsible for the overall direction of the entity in writing of the auditor’s concern regarding the other information and obtaining legal advice.
23. **When (after the date of the auditor’s report) revision of the other information is necessary but management refuses to make the revision, the auditor should consider taking further appropriate action.** The actions taken could include such steps as notifying those charged with governance in writing of the auditor’s concern regarding the other information and obtaining legal advice.

Appendix 2

(Ref: Para. 14(a), and A21-A22)

Qualitative Aspects of Accounting Practices

The communication required by paragraph 14(a), and discussed in paragraphs A21 and A22, may include such matters as:

Accounting Policies

- The appropriateness of the accounting policies to the particular circumstances of the entity, having regard to the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements. Where acceptable alternative accounting policies exist, the communication may include identification of the financial statement items that are affected by the choice of significant policies as well as information on accounting policies used by similar entities.
- The initial selection of, and changes in significant accounting policies, including the application of new accounting pronouncements. The communication may include: the effect of the timing and method of adoption of a change in accounting policy on the current and future earnings of the entity; and the timing of a change in accounting policies in relation to expected new accounting pronouncements.
- The effect of significant accounting policies in controversial or emerging areas (or those unique to an industry, particularly when there is a lack of authoritative guidance or consensus).
- The effect of the timing of transactions in relation to the period in which they are recorded.

Accounting Estimates

- For items for which estimates are significant, issues discussed in ISA 540 (Revised), "Auditing Accounting Estimates and Related Disclosures (Other than Those Involving Fair Value Measurements and Disclosures)" and ISA 545, "Auditing Fair Value Measurements and Disclosures" including, for example:
 - Management's identification of accounting estimates.
 - Management's process for making accounting estimates.
 - Risks of material misstatement.
 - Indicators of possible management bias.
 - Disclosure of estimation uncertainty in the financial statements.

Financial Statement Disclosures

- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures (e.g., disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingency issues).
- The overall neutrality, consistency, and clarity of the disclosures in the financial statements.

Related Matters

- The potential effect on the financial statements of significant risks, exposures, and uncertainties, such as pending litigation, that are disclosed in the financial statements.
- The extent to which the financial statements are affected by unusual transactions including non-recurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
- The factors affecting asset and liability carrying values, including the entity's bases for determining useful lives assigned to tangible and intangible assets. The communication may explain how factors affecting carrying values were selected and how alternative selections would have affected the financial statements.
- The selective correction of misstatements, e.g., correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.



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