

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**SIGNIFICANT ISSUES – OLD FORMAT****A. Supplementary Matters**

- A1. Perhaps the most contentious issue discussed at the previous meeting was how to deal with 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 for overseeing the strategic direction of the entity or the entity's obligations related to accountability. Some members of the IAASB expressed serious concern about whether the proposed requirement to communicate supplementary matters would, as drafted, create expectations that could not be fulfilled. While acknowledging the public interest objective of this requirement, issues raised included how the auditor can determine which matters those charged with governance would consider significant, and what threshold should be applied in determining which matters to communicate.
- A2. The Task Force has provided two options in the attached draft (paragraphs 46-48). One includes a "black letter" requirement the other does not, but in other respects, the two options are very similar. A significant feature of both options is that they make it explicit that determining which matters, if any, to communicate is a matter for the auditor's professional judgment. The Task Force recommends that the "black letter" option be adopted. Paragraph 46 of this option is modeled on ISA 240.101 "**The auditor should consider whether there are any other matters related to fraud to be discussed with those charged with governance of the entity,**" and paragraph 47, relating to responsibilities of those charged with governance, is taken direct from ISA 240.15.
- A3. At the previous meeting, a question was raised as to whether communicating supplementary matters is rightly part of an ISA audit. While the stated objective of an ISA audit is to form an opinion on the financial statements, the Task Force considers that bringing to attention such matters as significant deficiencies in governance processes that the auditor becomes aware of is consistent with reasonable expectations of the role of the auditor today.

B. Communication Requirements of Other ISAs

- B1. Early drafts of the Exposure Draft included an appendix listing matters required by other ISAs to be communicated with those charged with governance. The appendix was not, however, included in the final ED. This was largely because of the difficulty of ensuring it is in fact complete given quite a few of the current ISAs do not distinguish between communicating with those charged with governance and communicating with management, which meant that a high degree of subjectivity was required in deciding whether particular requirements should be included or not. Another reason the IAASB decided to remove the appendix was the difficulty of keeping it up-to-date as other ISAs are amended.

- B2. As noted at the previous meeting (December 2006), six respondents to the ED¹ commented that it would be helpful for practitioners if such a list were available. As a result, the Task Force was asked to reconsider whether a list should be prepared, and if so whether it should be included as an appendix to the ISA, or published in another form, e.g. a document on the IAASB website. It was noted that an appendix to the recently approved Audit Documentation Standard (ISA 230) “lists the main paragraphs that contain specific documentation requirements and guidance in other ISAs,” which is in the form of paragraph number references only, i.e. the relevant text is not included in the appendix.
- B3. The Task Force remains concerned about the lack of clarity in the use of the terms “those charged with governance” and “management” in certain of the older ISAs. It notes, however, that the IAASB intends to expedite the clarity project, and recommends that:
- The process of clarification include revising how “management,” “those charged with governance” and related terms are used, in line with the protocol in the appendix to this memorandum. That protocol is extracted from the Explanatory Memorandum to the ED of ISA 260, where comment on it was specifically sought. Respondents to the ED were generally supportive of the protocol.
 - A listing of matters required by other ISAs to be communicated with those charged with governance be prepared for inclusion on the IAASB website when the older ISAs have been reviewed.

In this context, it is likely that there will be other ISAs where such a listing may be appropriate, e.g., Documentation.

C. Other financial information

- C1. At the previous meeting, the IAASB agreed not to provide detailed guidance for applying the ISA to “other” financial information. This decision was seen as part of a broader decision on the applicability of ISAs generally and, therefore, the exact wording of the application clause in this ISA should mirror that decided on for general use in the ISA series. The current wording in paragraph 2 states the ISA is applicable to “financial statements,” other options include “general purpose financial statements” and “complete sets of financial statements”.

D. Definition of “significant”

- D1. Given the prominence of the term “significant” in the Draft, the Task Force was asked to consider whether it should be defined in the Draft (as opposed to the definition of “significance” in the Glossary of Terms).
- D2. A definition of “significant” has been included at paragraph 5 (c).

¹ ICAEW, GAO, CEBS, ACCA, GT and KPMG.

E. Other matters arising from the audit

- E1. It was noted at the previous meeting that the structure of old paragraphs 32 and 33 may be confusing because the catch all “other matters arising from the audit” (old paragraph 32 (d) – now paragraph 36 (d)) may be thought to duplicate “significant matters arising from the audit that were discussed with management” (old paragraph 33 (b) – now paragraph 36 (c) (ii)).
- E2. Old paragraphs 32 and 33 have now been combined, and the catch all “other matters arising from the audit” placed at the end of the combined paragraph.

F. Communication in writing

- F1. The Task Force was asked to reconsider whether the wording of paragraph 55 (old paragraph 56) makes it sufficiently clear that it is a matter of professional judgment which matters should be communicated in writing.
- F2. The Task Force has amended this paragraph to explicitly mention professional judgment and to tie it more closely with the factors the auditor would consider in exercising that judgment, as noted in paragraph 57.

G. Documentation

- G1. The Task Force was asked to reconsider whether the wording of paragraph 70 (old paragraph 69.1) is sufficiently clear regarding the role of professional judgment and the link with ISA 230 “Audit Documentation” in determining which matters should be documented.
- G2. The Task Force has amended this paragraph to explicitly mention professional judgment, and to bring it more closely in line with ISA 230.02: “The auditor should document matters which are important in providing audit evidence to support the auditor's opinion and evidence that the audit was carried out in accordance with ISAs”.

H. Conforming Amendment to ISA 300 “Planning the Audit of Financial Statements”

- H1. ISA 300.27 provides guidance about communicating with those charged with governance regarding planning matters. Given that paragraphs 31-35 of the Draft now contain a black letter requirement and further guidance on this matter, the Task Force was asked to consider whether a conforming amendment to ISA 300 was needed.
- H2. The Task Force has proposed a conforming amendment – see the final page of the Draft (this entire section is new in this version, which may not be clear from the text because conforming amendments are themselves inserted in “mark-up” form).

I. Communication by the Auditor of a Component

- I1. It was suggested at the December (Cape Town) meeting that the text related to communication with those charged with governance by the auditor of a component be removed from this document and placed in ISA 600 (Revised), “The Audit of Group Financial Statements.”
- I2. The Groups Task Force has considered this suggestion and concluded that the text does not fit comfortably in ISA 600 because it is aimed almost exclusively at the component auditor,

whereas ISA 600 is aimed almost exclusively at the group auditor. The text has therefore been retained in ISA 260 (paragraphs 21-22).

J Other Main Changes Agreed to at the Previous Meeting

- J1. References to engagement letters throughout the Draft have been brought together at paragraph 56 in relation to “forms of communication,” and the reference at para 27 has been retained in the context of communicating the auditor’s responsibilities.
- J2. With respect to materiality, the text now refers to the “application,” rather than “concept,” of materiality, disclosure of specific materiality thresholds is not encouraged, and the amount of detail in the Draft regarding communication of materiality matters has been reduced (paragraph 33 – 3rd dot point).
- J3. Whether or not to communicate corrected misstatements is to be determined by their root cause (paragraph 36 (c) (i)).
- J4. The text related to communication of uncorrected misstatements has been removed from this document and referred to the Materiality Task Force who will consider placing it the proposed ISAs “Evaluation of Misstatements Identified During the Audit” (old paragraph 32 (c))
- J5. All representations requested from management, rather than merely a selection thereof, are now required to be communicated with those charged with governance (paragraph 36 (c) (iii)).
- J6. Matters required to be communicated by other ISAs, additional external requirements, or agreement with the entity, are now mentioned only where necessary to ensure readers of the ISA are made aware of the complete communication framework (paragraphs 3, 29 – 3rd dot point, and 30), with other references, including old paragraph 43, being deleted.
- J7. The wording of paragraph 61 has been amended to remove the connotation that in all cases communications are “not to be disclosed to others, or quoted or referred to, without the auditor’s prior written consent.”
- J8. The new documentation requirements proposed after the Draft was exposed (old paragraph 69.2) have been deleted.

Appendix

Protocol for use of “management,” “those charged with governance,” and related terms

This protocol has been extracted from the Explanatory Memorandum to the ED of ISA 260, where comment on it was specifically sought. Respondents to the ED were generally supportive of the protocol.

- (a) In the Glossary of Terms, the definitions of “those charged with governance” and “management” are to be replaced with the definitions agreed to for ISA 260, and will include reference to the discussion in the relevant paragraphs of that ISA.
- (b) Both those charged with governance and management should be referred to where appropriate, for example: “Management or those charged with governance are is responsible for the fair presentation of financial statements that reflect the nature and operations of the entity. (ISA 500.15)
- (c) “Board,” “director(s),” and “audit committee” should not be used as generic terms. They may be used to illustrate a point, for example: “... recent change of senior management, those charged with governance, e.g. an entity’s board of directors, or ownership.” (ISA 210.11)
- (d) “Client” should not be used (ordinarily “entity” will replace the term “client”).
- (e) The IAASB recognizes that strict adherence to the specific approach noted above will not necessarily always result in the desired clarity of expression, and in some circumstances therefore additional explanations may need to be added when “those charged with governance,” “management,” or a related term is used.

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