

Communication with Those Charged with Governance—Issues**A. Documentation**

- A1. The only significant issue remaining in the “old” format draft at the end of the March (Hong Kong) meeting was the wording of the documentation requirement. The wording adopted in paragraph 70 in the attached draft reflects the sentiment expressed in the draft minutes that “the ISA should require that where matters required by the ISA are communicated orally, they should be documented.”

B. Clarity objective

- B1. The suggested objective, paragraph 5 of the attached “clarity” format, is based on the “purpose of communication” (see paragraph 7 of the marked-up “old” format). The elements of the objective are elaborated on in the application material under the heading “Role of Communication” at paragraph A1 of the “clarity” format (paragraph 8 of the “old” format).
- B2. An issue raised previously was whether the objective of ISA 260 should fit within the existing objective of an audit (which is, essentially, to form an opinion on the financial statements), or whether there is a broader objective in requiring communication with those charged with governance. The objective included in the attached draft relates directly to the audit of the financial statements, and is therefore consistent with the existing objective of an audit.

C. Clarity wording

- C1. Minor amendments to some present tense sentences have been made in the Application Material of the “clarity” format, and in the “old” format. These changes are identified by revision marks in the marked-up versions.

D. Due process

- D1. The Due Process and Working Procedures approved by the PIOB require the IAASB, after approving the revised content of an exposure draft (ED), to “assess whether there has been substantial change to the exposed document that may warrant re-exposure.” Further, it notes that “Situations that constitute potential grounds for a decision to re-expose may include, for example ... substantial change to the substance of a proposed international pronouncement.”
- D2. The ISA 260 ED included the following as a black letter requirement regarding what have become known as “supplementary matters.”

The auditor should communicate to those charged with governance other matters of which the auditor is aware that, in the auditor’s professional judgment, are serious and relevant to the responsibilities of those charged with governance.

- D3. There is agreement among IAASB members that consideration of observed supplementary matters is important in the public interest. However, members (and comments received from 7 of the 39 respondents on exposure) have also:

- (a) Expressed concern about extension of the auditor’s responsibilities beyond matters necessary to form an opinion on the financial statements while acknowledging that there is a reasonable expectation that auditors should communicate broader matters (e.g., “looting the company”) of which the auditor is aware.
 - (b) Expressed caution about ensuring the scope of the audit is not seen as including a “search” responsibility with respect to supplementary matters.
 - (c) Referred to practical difficulties in implementing the proposal because it does not offer enough certainty about the boundaries of the auditor’s communication responsibility, which in turn leaves the auditor:
 - (i) Exposed to risk after the event at the hands of those who have the benefit of hindsight, and
 - (ii) Unable to properly direct staff in what matters to bring to the engagement partner’s attention.
- D4. In light of these issues, the Board has decided to deal with supplementary matters in the Application Material. In addition, the Board has agreed to make it clear that “Nothing in this ISA precludes the auditor from communicating any other matters to those charged with governance” (paragraph 3).
- D5. The only ED respondents to comment specifically on this issue who are not either auditors (private or public sector) or accounting bodies were:
- (a) IOSCO, who suggested the supplementary matters requirement proposed in the ED be confined to communicating about “matters involving senior management,” and
 - (b) The World Bank (received in December, not tabled previously), who noted “we are very concerned that the Proposed ISA 260 would restrict the scope of required communication to those charged with governance to “matters relevant to the financial reporting and disclosure process.”
- D6. The Board has given due consideration to this matter in light of comments received. Nevertheless, the Board’s decision that there be no requirement in relation to supplementary matters represents a significant change from the position exposed. Given this, the importance of the principle at issue, and the views expressed on exposure, the Task Force recommends that comments on the Board’s position on this single issue be invited when the revised draft is exposed for “clarity.” In the absence of adopting this approach, it is likely the Board will receive some comments on this matter anyhow, but will not be able to gauge the depth of opinion on it across all constituents.