

## Communication with Those Charged With Governance— International Standard on Auditing 260

### [Proposed Consequential Amendments to ISA 260]

(Effective for audits of financial statements for periods beginning on or after December 15, 2009)

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International Standard on Auditing (ISA) 260, “Communication with Those Charged with Governance” should be read in conjunction with ISA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

[Extracts from ISA 260]

## Requirements

### Matters to Be Communicated

#### *Planned Scope and Timing of the Audit*

15. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit. (Ref: Para. A11-A15)

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## Application and Other Explanatory Material

### Matters to Be Communicated

#### *Planned Scope and Timing of the Audit* (Ref: Para. 15)

A11. Communication regarding the planned scope and timing of the audit may:

- (a) Assist those charged with governance to understand better the consequences of the auditor's work, to discuss issues of risk and the concept of materiality with the auditor, and to identify 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.

A12. Care is required when communicating with those charged with governance about the planned 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.

A13. Matters communicated may include:

- 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 the concept of materiality in the context of an audit.<sup>1</sup>
- The documents to be prepared and issued by the entity for which the auditor has responsibilities under [proposed] ISA 720 (Revised)<sup>2</sup> and the timing at which it has been agreed with management that such documents will be made available to the auditor.

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<sup>1</sup> ISA 320, "Materiality in Planning and Performing an Audit."

<sup>2</sup> [Proposed] ISA 720 (Revised), *The Auditor's Responsibilities for Other Information in Documents Containing or Accompanying the Audited Financial Statements and the Auditor's Report Thereon*

A14. 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.

A15. 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 establish the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.

Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(d))

A20. 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 that materially affect the other information<sup>3</sup> ~~as material misstatements of fact or material inconsistencies in information accompanying the audited financial statements~~ that have been corrected.

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<sup>3</sup> Paragraph 8(a) of [proposed] ISA 720 (Revised), defines the term “other information” for purpose of the ISAs.