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Auditor's communication with those charged with governance: supplementary material;

American Institute of Certified Public Accountants. Auditing Standards Board

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The Auditor’s Communication With Those Charged With Governance

MAPPING DOCUMENT

This mapping document demonstrates how the material in SAS No. 114 has been reflected in the proposed SAS No. 114 (Redrafted), *The Auditor’s Communication With Those Charged With Governance*. Highlighted material identifies material that is proposed to be eliminated as a result of redrafting. An explanation of the proposed deletion of highlighted material, significant edits and other comments are provided, where appropriate.

SAS No. 114	New par. ref.	Explanation
<p>1. This Statement on Auditing Standards (SAS) establishes standards and provides guidance on the auditor’s communication with those charged with governance in relation to an audit of financial statements. Although this Statement applies regardless of an entity’s governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity. This Statement 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.</p>	1	
<p>2. This Statement has been drafted in terms of an audit of financial statements, but may also be applied, 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.</p>	2	
<p>3. For purposes of this Statement:</p> <p><i>a. Those charged with governance</i> means the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. In some cases, those charged with governance are responsible for approving the entity’s financial statements (in other cases management has this responsibility). For entities with a board of directors, this term encompasses the term <i>board of directors</i> or <i>audit committee</i> used elsewhere in generally accepted auditing standards.</p> <p><i>b. Management</i> means the person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting</p>	6	

SAS No. 114	New par. ref.	Explanation
<p>4. Recognizing the importance of effective two-way communication to the audit, this Statement provides a 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 are identified in other SASs (see Appendix A). Further matters may be communicated by agreement with those charged with governance or management, or in accordance with external requirements.</p>	3	
<p>5. The auditor must communicate with those charged with governance matters related to the financial statement audit that are, in the auditor's professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.</p>	NA	<p>Paragraph deleted. The unconditional obligation is addressed by the objectives in paragraph 5(c) and the detailed requirements of this SAS.</p>
<p>6. Clear communication of specific matters in accordance with this Statement is an integral part of every audit. However, the auditor is not required to perform procedures specifically to identify other significant matters to communicate with those charged with governance.</p>	A3	
<p>The Role of Communication</p>		
<p>7. The principal purposes of communication with those charged with governance are to:</p> <ul style="list-style-type: none"> a. Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the scope and timing of the audit. b. Obtain from those charged with governance information relevant to the audit. c. Provide those charged with governance with timely observations arising from the audit that are relevant to their responsibilities in overseeing the financial reporting process. 	5	

SAS No. 114	New par. ref.	Explanation
<p>8. This Statement focuses primarily on communications from the auditor to those charged with governance. However, effective two-way communication is also very important in assisting:</p> <p>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.</p> <p>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.</p> <p>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.</p>	A1	
<p>9. Although the auditor is responsible for communicating specific matters in accordance with this Statement, 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.</p>	A2	Redrafted using the ISA language.
<p>Legal Considerations</p>		
<p>10. In certain circumstances, the auditor may be required to report to a regulatory or enforcement body certain matters communicated with those charged with governance. For example, governmental auditing standards require auditors to report fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse directly to parties outside the audited entity in certain circumstances.</p>	NA	Paragraph deleted to conform to ISA.
<p>11. <u>In rare circumstances</u>, 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.</p>	A4	Highlighted text was deleted as it was determined not to be necessary.

SAS No. 114	New par. ref.	Explanation
Those Charged With Governance		
12.1 The auditor should determine the appropriate person(s) within the entity's governance structure with whom to communicate	7	
12.2. The appropriate person(s) may vary depending on the matter to be communicated.	A7	
<p>13. Governance structures vary by entity, reflecting influences such as size and ownership characteristics. For example:</p> <ul style="list-style-type: none"> • In some entities, those charged with governance hold positions that are an integral part of the entity's legal structure, for example, company directors. For other entities, a body that is not part of the entity may be charged with governance, as with some government agencies. • In some cases, some or all of those charged with governance also have management responsibilities. In others, those charged with governance and management are different people. 	A5	
<p>14. 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, trustees, or equivalent persons. In some smaller entities, however, one person may be charged with governance, such as 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.</p>	A6	
<p>15. Such diversity means that it is not possible for this Statement 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, for example, entities where the governance structure is not formally defined, such as some family-owned entities, some not-for-profit organizations, and some government entities. The auditor's understanding of the entity's governance structure and processes obtained in accordance with SAS No. 109, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>, is relevant in deciding</p>	A7	

SAS No. 114	New par. ref.	Explanation
with whom to communicate matters.		
<p>16.1 When the appropriate person(s) with whom to communicate are not clearly identifiable, the auditor and the engaging party should agree on the relevant person(s) within the entity's governance structure with whom the auditor will communicate.</p> <p>16.2 When the entity being audited is a component of a group, the appropriate person(s) with whom to communicate is dependent on the nature of the matter to be communicated and the terms of the engagement.</p>	<p>A7</p> <p>A8</p>	
<i>Communication With the Audit Committee or Other Subgroup of Those Charged With Governance</i>		
<p>17. Audit committees (or similar subgroups with different names) exist in many entities. Although their specific authority and functions may differ, communication with the audit committee, where one exists, is a key element in the auditor's communication with those charged with governance. Good governance principles suggest that:</p> <ul style="list-style-type: none"> • The auditor has access to the audit committee as necessary. • The chair of the audit committee and, when relevant, the other members of the audit committee, meet with the auditor periodically. • The audit committee meets with the auditor without management present at least annually. 	A11	
18.1 The auditor should evaluate whether communication with a subgroup of those charged with governance, such as the audit committee or an individual, adequately fulfills the auditor's responsibility to communicate with those charged with governance.	8	Redrafted using the ISA language.

SAS No. 114	New par. ref.	Explanation
governance.		
<i>When All Of Those Charged With Governance Are Involved In Managing The Entity</i>		
21. In some cases, all of those charged with governance are involved in managing the entity. In these cases, if matters required by this Statement 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 .	9	
22. When all of those charged with governance are involved in managing the entity, the auditor should consider whether communication with person(s) with financial reporting responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity. (See paragraphs 12 and 18.)	10	Language redrafted to clarify intent.
Matters to Be Communicated		
23. The auditor should communicate with those charged with governance: <ul style="list-style-type: none"> a. The auditor's responsibilities under generally accepted auditing standards (see paragraphs 26 through 28); b. An overview of the planned scope and timing of the audit (see paragraphs 29 through 33); and c. Significant findings from the audit (see paragraphs 34 through 44). 	NA	Overview paragraph listing requirements that are repeated in subsequent paragraphs was not used in the proposed SAS.
24. Management's communication of these matters to those charged with governance does not relieve the auditor of the responsibility to also communicate them. However, communication of these matters by management may affect the form or timing of the auditor's communication.	A2	
25. Nothing in this Statement precludes the auditor from communicating any other matters to those charged with governance.	3	

SAS No. 114	New par. ref.	Explanation
<p>27. The auditor may also communicate that:</p> <ul style="list-style-type: none"> a. The auditor is responsible for performing the audit in accordance with generally accepted auditing standards and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. b. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. c. The auditor is responsible for communicating significant matters related to the financial statement audit that are, in the auditor's professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Generally accepted auditing standards do not require the auditor to design procedures for the purpose of identifying other matters to communicate with those charged with governance. d. When applicable, the auditor is also responsible for communicating particular matters required by laws or regulations, by agreement with the entity or by additional requirements applicable to the engagement. 	A12	
<p>28. SAS No. 8, <i>Other Information in Documents Containing Audited Financial Statements</i>, establishes the auditor's responsibility for information prepared by management that accompanies the audited financial statements. If the entity includes other information in documents containing audited financial statements, the auditor should communicate with those charged with governance the auditor's responsibility with respect to such other information, any procedures performed relating to the other information, and the results.</p>	NA	<p>Conforming amendment proposed to move requirement to AU section 550. See Appendix B of the proposed SAS.</p>
<p><i>Planned Scope and Timing of the Audit</i></p>		
<p>29.1 The auditor should communicate with those charged with governance an overview of the planned</p>	11	

SAS No. 114	New par. ref.	Explanation
<p>scope and timing of the audit.</p> <p>29.2 However, it is important for the auditor 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. Certain factors described in paragraph 53 may be relevant in determining the nature and extent of this communication.</p>	A16	Redrafted using ISA language.
<p>30. Communication regarding the planned scope and timing of the audit may:</p> <p><i>a.</i> Assist those charged with governance in 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</p> <p><i>b.</i> Assist the auditor to understand better the entity and its environment.</p>	A17	
<p>31. Matters communicated may include the following:</p> <ul style="list-style-type: none"> • 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, including, when applicable, whether the auditor will express an opinion on the effectiveness of internal control over financial reporting. • The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts. • 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. 	A18	Redrafted using ISA language.

SAS No. 114	New par. ref.	Explanation
<p>32. Other planning matters that the auditor may consider discussing with those charged with governance include:</p> <ul style="list-style-type: none"> • The views of those charged with governance about: <ul style="list-style-type: none"> – 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 believe are relevant to 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 the possibility of fraud. • The actions of those charged with governance in response to developments in financial reporting, laws, accounting standards, corporate governance practices, and other related matters. • The actions of those charged with governance in response to previous communications with the auditor. 	A19	
<p>33. While communication with those charged with governance may assist the auditor in planning 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.</p>	A20	

SAS No. 114	New par. ref.	Explanation
<i>Significant Findings From the Audit</i>		
<p>34. The auditor should communicate with those charged with governance the following matters:</p> <ul style="list-style-type: none"> • The auditor's views about qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures (see paragraphs 37 and 38). • Significant difficulties, if any, encountered during the audit (see paragraph 39). • Uncorrected misstatements, other than those the auditor believes are trivial, if any (see paragraphs 40 and 41). • Disagreements with management, if any, (see paragraph 42). • Other findings or issues, if any, arising from the audit that are, in the auditor's professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process. 	<p>12(a)</p> <p>12(b)</p> <p>13(a)</p> <p>12(c)</p> <p>12(d)</p>	
<p>35. Unless all of those charged with governance are involved in managing the entity, the auditor also should communicate:</p> <ul style="list-style-type: none"> • Material, corrected misstatements that were brought to the attention of management as a result of audit procedures. The auditor also may communicate other corrected immaterial misstatements, such as frequently recurring immaterial misstatements that may indicate a particular bias in the preparation of the financial statements. • Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management (see paragraph 44). • Management's consultations with other accountants (see paragraph 43). • Representations the auditor is requesting from management. The auditor may provide those charged with governance with a copy of management's written representations. 	<p>14</p>	

SAS No. 114	New par. ref.	Explanation
<p>36. The communication of significant 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.</p>	A21	
<p><i>Qualitative Aspects of the Entity's Significant Accounting Practices</i></p>		
<p>37. Generally accepted accounting principles provide for the entity to make accounting estimates and judgments about accounting policies and financial statement disclosures. Open and constructive communication about qualitative aspects of the entity's significant accounting practices may include comment on the acceptability of significant accounting practices. Appendix B provides guidance on the matters that may be included in this communication.</p>	A22	
<p>38. The auditor should explain to those charged with governance why the auditor considers a significant accounting practice not to be appropriate and, when considered necessary, request changes. If requested changes are not made, the auditor should 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.</p>	12(a), A22	Redrafted using ISA language. Highlighted text was deleted as duplicative of other standards.
<p><i>Significant Difficulties Encountered During the Audit</i></p>		
<p>39.1 The auditor should inform those charged with governance of any significant difficulties encountered in dealing with management related to the performance of the audit.</p>	12(b)	

SAS No. 114	New par. ref.	Explanation
41.2 The auditor should also 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.		constitutes a misstatement is discussed in AU section 312.
<i>Disagreements with Management</i>		
42.1 The auditor should discuss with those charged with governance any disagreements with management, 42.2 whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the entity's financial statements or the auditor's report. Disagreements with management may occasionally arise over, among other things, the application of accounting principles to the entity's specific transactions and events and the basis for management's judgments about accounting estimates. Disagreements may also arise regarding the scope of the audit, disclosures to be included in the entity's financial statements, and the wording of the auditor's report. For purposes of this Statement, disagreements do not include differences of opinion based on incomplete facts or preliminary information that are later resolved.	12(c) A24	
<i>Management's Consultations With Other Accountants</i>		
43. In some cases, management may decide to consult with other accountants about auditing and accounting matters. When the auditor is aware that such consultation has occurred, the auditor should discuss with those charged with governance his or her views about significant matters that were the subject of such consultation.	14(c)	Highlighted text deleted to conform to ISA usage.
<i>Significant Issues Discussed, or Subject to Correspondence With Management</i>		
44.1 The auditor should communicate with those charged with governance any significant issues that were discussed or were the subject of correspondence with management.	14(b)	

SAS No. 114	New par. ref.	Explanation
<p>44.2 Significant issues may include such matters as:</p> <ul style="list-style-type: none"> • Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. • Discussions or correspondence in connection with the initial or recurring retention of the auditor including, among other matters, any discussions or correspondence regarding the application of accounting principles and auditing standards. 	A28	
<i>Independence</i>		
<p>45. Generally accepted auditing standards require independence for all audits. Relevant matters to consider in reaching a conclusion about independence include circumstances or relationships that create threats to auditor independence and the related safeguards that have been applied to eliminate those threats or reduce them to an acceptable level.</p>	A13	
<p>46. Although the auditor's report affirms the auditor's independence, in certain situations, particularly for public interest entities, the auditor may determine that it is appropriate to communicate with those charged with governance circumstances or relationships (for example, financial interests, business or family relationships, or nonaudit services provided or expected to be provided) that in the auditor's professional judgment may reasonably be thought to bear on independence and that the auditor gave significant consideration to in reaching the conclusion that independence has not been impaired.</p>	A14	
<p>47. The form and timing of communications regarding independence may be affected by the entity's governance structure and whether a formal subgroup such as an audit committee exists. In situations where all of those charged with governance are involved in managing the entity, the auditor may determine that those charged with governance have been informed of relevant facts regarding the auditor's independence through their management activities or through other means, such as the engagement letter. This is particularly likely where the entity is owner-managed, and the auditor's firm has little involvement with the entity beyond a financial statement audit.</p>	A15	
The Communication Process		

SAS No. 114	New par. ref.	Explanation
<i>Establishing a Mutual Understanding</i>		
48.1 The auditor should communicate with those charged with governance the form, timing, and expected general content of communications.	15	
48.2 Clear communication of the auditor's responsibilities (paragraphs 26 through 28), an overview of the planned scope and timing of the audit (paragraphs 29 through 33), and the expected general content of communications helps establish the basis for effective two-way communication.	A30	
<p>49. Matters that may also contribute to effective two-way communication include discussion of:</p> <ul style="list-style-type: none"> • The purpose of communications. When the purpose is clear, the auditor and those charged with governance are in a better position 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) on the audit team and among 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. Such matters might include strategic decisions that may significantly affect the nature, timing, and extent of audit procedures; the suspicion or the detection of fraud; or concerns about 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. 	A31	
50. The communication process will vary with the circumstances, including the size and governance structure of the entity, how those charged with governance operate, and the auditor's view of the significance of matters to be communicated. 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 60).	A32	

SAS No. 114	New par. ref.	Explanation
Forms of Communication		
<p>51.1 The auditor should communicate in writing with those charged with governance significant findings from the audit (see paragraphs 34 and 35) when, in the auditor's professional judgment, oral communication would not be adequate. This communication need not include matters that arose during the course of the audit that were communicated with those charged with governance and satisfactorily resolved.</p> <p>51.1 Other communications may be oral or in writing.</p>	<p>17</p> <p>A35</p>	
<p>52. Effective communication may involve formal presentations and written reports as well as less formal communications, including discussions. Written communications may include an engagement letter that is provided to those charged with governance.</p>	A35	
<p>53. In addition to the significance of a particular matter, the form of communication (for example, whether to communicate orally or in writing, the extent of detail or summarization in the communication, and whether to communicate in a formal or informal manner) may be affected by such factors as:</p> <ul style="list-style-type: none"> • 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 being audited. • Legal or regulatory requirements that may require a written communication with those charged with governance. • 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. • In the case of a special purpose financial statement audit, whether the auditor also audits the entity's general purpose financial statements. 	A36	

SAS No. 114	New par. ref.	Explanation
54. When a significant matter is discussed with an individual member of those charged with governance, for example, 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.	A37	
55. When the auditor communicates matters in accordance with this Statement in writing, the auditor should indicate in the communication that it is intended solely for the information and use of those charged with governance and, if appropriate, management and is not intended to be and should not be used by anyone other than these specified parties.	16	
<i>Timing of Communications</i>		
56. The auditor should communicate with those charged with governance on a sufficiently timely basis to enable those charged with governance to take appropriate action.	18	
57. The appropriate timing for communications will vary with the circumstances of the engagement. Considerations include the significance and nature of the matter, and the action expected to be taken by those charged with governance. The auditor may consider communicating: <ul style="list-style-type: none"> • Planning matters early in the audit engagement and, for an initial engagement, as part of the terms of the engagement. • Significant difficulties encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulties, or if the difficulties are likely to lead to a modified opinion. 	A38	

SAS No. 114	New par. ref.	Explanation
<p>58. Other factors that may be relevant to the timing of communications include:</p> <ul style="list-style-type: none"> • 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, for example, timely communication of a material weakness to enable appropriate remedial action to be taken. • Whether the auditor is auditing both general purpose and special purpose financial statements. 	A39	
<p><i>Adequacy of the Communication Process</i></p>		
<p>59. The auditor should evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor should take appropriate action to address the effectiveness of the communication process</p>	19	
<p>60. As discussed in paragraph 8, effective two-way communication assists both the auditor and those charged with governance. Further, SAS No. 109, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>, 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, which will influence the auditor's assessment of the risks of material misstatements.</p>	A41	

SAS No. 114	New par. ref.	Explanation
<p>61. The auditor need not design specific procedures to support the evaluation required by paragraph 59. Rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. Such observations may include:</p> <ul style="list-style-type: none"> • The appropriateness and timeliness of actions taken by those charged with governance in response to matters communicated by the auditor. • 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 communicated by the auditor, such as 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. 	A40	
<p>62.1 If, in the auditor's judgment, 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.</p> <p>62.1 The auditor should consider the effect, if any, on the auditor's assessment of the risks of material misstatements.</p>	<p>A41</p> <p>19</p>	<p>Highlighted text deleted to conform to ISA.</p>

SAS No. 114	New par. ref.	Explanation
<p>63. The auditor may discuss the situation with those charged with governance. If the situation cannot be resolved, the auditor may take such actions as:</p> <ul style="list-style-type: none"> • 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 (for example, a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (for example, shareholders in a general meeting), or the responsible government agency for certain governmental entities. • Withdrawing from the engagement. 	A42	
Documentation		
<p>64.1 When matters required to be communicated by this Statement have been communicated orally, the auditor should document them. When matters have been communicated in writing, the auditor should retain a copy of the communication.</p> <p>64.2 Documentation of oral communication may include a copy of minutes prepared by the entity if those minutes are an appropriate record of the communication.</p>	<p>20</p> <p>A43</p>	

The Auditor's Communication With Those Charged With Governance

CHANGES IN REQUIREMENTS

§ in SAS No. 114	Statements	Rationale or Comments
5	The auditor must communicate with those charged with governance matters related to the financial statement audit that are, in the auditor's professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.	The unconditional obligation is addressed by the objectives in paragraph 5(c) and the detailed requirements of the proposed SAS.
28	If the entity includes other information in documents containing audited financial statements, the auditor should communicate with those charged with governance the auditor's responsibility with respect to such other information, any procedures performed relating to the other information, and the results.	Conforming amendment proposed to move requirement to AU section 550. See Appendix B of the proposed SAS..
38	The auditor should ... when considered necessary, request changes. If requested changes are not made, the auditor should 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.	Requirement was deleted as duplicative of other standards. Requested changes result from misstatements which are discussed in AU section 312. The auditor is required to consider the effect on the auditor's report in AU section 508.

DETAILED DIFFERENCES BETWEEN ISA 260 AND THE PROPOSED SAS

New material is shown in boldface italics; deleted material is shown in strikethrough.

ISA 260	Proposed SAS
Introduction	Introduction
Scope of this ISA	Scope of this ISA <i>Statement on Auditing Standards</i>
<p>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.</p>	<p>1. This International Standard <i>Statement on Auditing (ISA) deals with Standards (SAS) addresses</i> the auditor's responsibility to communicate with those charged with governance in relation to an audit of financial statements.¹ Although this ISA <i>SAS</i> applies irrespective <i>regardless</i> 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 <i>SAS</i> 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.</p>
<p>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.</p>	<p>2. This ISA <i>SAS</i> has been drafted in terms of an audit of financial statements, but may also be applicable <i>applied</i>, 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.</p>
<p>3. Recognizing the importance of effective two-way communication during an audit of financial statements, this ISA</p>	<p>3. Recognizing the importance of effective two-way communication during an audit of financial statements, this ISA <i>SAS</i></p>

¹ *The provisions of this SAS apply to audits of financial statements prepared either in accordance with generally accepted accounting principles or in accordance with a comprehensive basis of accounting other than generally accepted accounting principles. References in this SAS to generally accepted accounting principles are intended to also refer to other comprehensive bases of accounting when the reference is relevant to the basis of accounting used.*

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<p>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 or other ISAs, 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: Par. A28-A31)</p>	<p>provides an overarching^a 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 SASs (see Appendix 1)-Exhibit A). Further matters, not required by this or other ISAs generally accepted auditing standards, 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. those charged with governance or management, or in accordance with external requirements. Nothing in this ISA^{SAS} precludes the auditor from communicating any other matters to those charged with governance. (Ref: Par. A28-A31)</p>
Effective Date	Effective Date
<p>4. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.</p>	<p>4. This statement is effective for audits of financial statements for periods beginning on or after December 15, 2009^[Date].²</p>
Objectives	Objectives
<p>5. The objectives of the auditor are to:</p>	<p>5. The objectives of the auditor, in communicating with those charged with governance, are to</p>
<p>(a) Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;</p>	<p>a. communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit.</p>
<p>(b) Obtain from those charged with governance, information relevant to the audit;</p>	<p>b. obtain from those charged with governance information relevant to the audit.</p>
<p>(c) Provide those charged with</p>	<p>c. provide those charged with governance</p>

² This date will not be earlier than December 15, 2010.

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governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and	with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and .
(d) Promote effective two-way communication between the auditor and those charged with governance. (Ref: Par. A1-A4)	d. promote effective two-way communication between the auditor and those charged with governance. (Ref: par. A1–A4)
Definitions	Definitions
6. For purposes of the ISAs, the following terms have the meanings attributed below:	6. For purposes of the ISAs–SASs , the following terms have the meanings attributed below:
(a) Those charged with governance – The person(s) or organization(s) (e.g., a corporate trustee) 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 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 approving ³ the entity’s financial statements (in other cases management has this responsibility). For discussion of the diversity of governance structures, see paragraphs A5-A12.	<i>Those charged with governance.</i> The person(s) or organization(s) (e.g. for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and <i>the</i> 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 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 approving ⁴ the entity’s financial statements (in other cases, management has this responsibility). For discussion of the diversity of governance structures, see paragraphs A5–A12 <i>For entities with a board of directors, this term encompasses the term board of directors or audit committee used elsewhere in generally accepted auditing standards.</i>

³ ~~As described at paragraph A43 of [proposed] ISA 700, (Redrafted), “The Independent Auditor’s Report on General Purpose Financial Statements,” having responsibility for approving in this context means having the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared.~~

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<p>(b) Management – The person(s) with 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 approving¹ the entity's financial statements (in other cases those charged with governance have this responsibility).</p>	<p><i>Management.</i> The person(s) with executive responsibility responsible for achieving the conduct objectives of the entity's operations. For some entities in some jurisdictions, management includes some or all of entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for preparing the financial statements, overseen by those charged with governance, and in some cases management is also responsible for approving¹ the entity's including designing, implementing, and maintaining effective internal control over financial statements (in other cases those charged with governance have this responsibility)-reporting.</p>
Requirements	Requirements
Those Charged with Governance	Those Charged With Governance
<p>7. The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate. (Ref: Par. A5-A8)</p>	<p>7. The auditor shall should determine the appropriate person(s) within the entity's governance structure with whom to communicate. (Ref: Par. A5-A8)</p>
<p><i>Communication with a Subgroup of Those Charged with Governance</i></p>	<p><i>Communication With a the Audit Committee or Other Subgroup of Those Charged With Governance</i></p>
<p>8. When the auditor communicates with a subgroup of those charged with governance, e.g., an audit committee, or an individual, the auditor shall determine whether the auditor also needs to communicate with the governing body. (Ref: Par. A9-A11)</p>	<p>8. When the auditor communicates with a subgroup of those charged with governance, e.g., an such as the audit committee or an individual, the auditor shall should determine whether the auditor also needs to communicate with the governing body. (Ref: Par. A9-A11)</p>
<p><i>When All of Those Charged with Governance are Involved in Managing the Entity</i></p>	<p><i>When All of Those Charged With Governance Are Involved in Managing the Entity</i></p>
<p>9. 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,</p>	<p>9. 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 ISASAS are communicated with person(s) with management</p>

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<p>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 12(c). The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity. (Ref: Par. A12)</p>	<p>responsibilities, and those that person(s) also have has governance responsibilities, the matters need not be communicated again with those the same person(s) in their his or her governance role. These matters are noted in paragraph 12(e). The auditor shall should, nonetheless, be satisfied that communication with person(s) with management responsibilities adequately informs all of those charged with governance with whom the auditor would otherwise communicate in their governance capacity are adequately informed if the auditor has communicated with only some people having both management and governance responsibilities. (Ref: Par. A12)</p>
Matters to be Communicated	Matters to Be Communicated
<p><i>The Auditor's Responsibilities in Relation to the Financial Statement Audit</i></p>	<p><i>The Auditor's Responsibilities in Relation to the Financial Statement Audit Under Generally Accepted Auditing Standards</i></p>
<p>10. The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that:</p>	<p>10. The auditor shall should communicate with those charged with governance the auditor's responsibilities of the auditor in relation to the financial statement audit under generally accepted auditing standards (Ref: par. A12–A15), including that</p>
<p>(a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and</p>	<p>a. the auditor is responsible for forming and expressing an opinion on about whether the financial statements that have been prepared by management, with the oversight of those charged with governance; and, are presented fairly, in all material respects, in conformity with generally accepted accounting principles.</p>
<p>(b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. (Ref: Par. A13-A14)</p>	<p>b. the audit of the financial statements does not relieve management or those charged with governance of their responsibilities. (Ref: Par. A13–A14)</p>
<p><i>Planned Scope and Timing of the Audit</i></p>	<p><i>Planned Scope and Timing of the Audit</i></p>
<p>11. The auditor shall communicate with those charged with governance an overview of</p>	<p>11. The auditor shall should communicate with those charged with governance an overview of the planned scope and timing of</p>

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the planned scope and timing of the audit. (Ref: Par. A15-A19)	the audit. (Ref: par. A16-A20)
<i>Significant Findings from the Audit</i>	<i>Significant Findings From the Audit</i>
12. The auditor shall communicate with those charged with governance (Ref: Par. A20):	12. The auditor shall should communicate with those charged with governance <i>the following matters:</i> (Ref: par. A21)
(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, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity (Ref: Par. A21);	a. The auditor's views about significant <i>significant</i> qualitative aspects of the entity's <i>significant</i> accounting practices, including accounting policies, accounting estimates, and financial statement disclosures (when applicable, the auditor shall <i>should</i> explain to those charged with governance why the auditor considers a significant accounting practice that is acceptable under the applicable financial reporting framework, <i>generally accepted accounting principles</i> not to be most appropriate to the particular circumstances of the entity) (Ref: par. A22)
(b) Significant difficulties, if any, encountered during the audit (Ref: Par. A22);	b. Significant difficulties, if any, encountered during the audit (Ref: par. A23)
	c. Disagreements with management, if any (Ref: Par. A24)
(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: Par. A24).	d. Other matters <i>findings or issues</i> , if any, arising from the audit that are, in the auditor's professional judgment, significant to the oversight of <i>and relevant to those charged with governance regarding their responsibility to oversee</i> the financial reporting process. (Ref: Par. A24).
	Uncorrected Misstatements
	13. <i>The auditor should communicate with those charged with governance:</i>

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	<p>a. <i>Uncorrected misstatements other than those the auditor believes are trivial, if any, and the effect that they may have on the opinion in the auditor's report, and request their correction.⁵ In communicating the effect that uncorrected misstatements that are material, individually or in the aggregate, may have on the opinion in the auditor's report, the auditor should address the misstatements individually. (Ref: par. A25)</i></p>
	<p>b. <i>the implications of a failure to correct misstatements, considering the size and nature of the misstatement judged in the surrounding circumstances, including possible implications in relation to future financial statements.⁶ (Ref: par. A26)</i></p>
	<p>c. <i>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.</i></p>
	<p>When Some of Those Charged With Governance Are Not Involved in Management</p>
<p>(c) Unless all of those charged with governance are involved in managing the entity:</p>	<p>(e)-14. Unless all of those charged with governance are involved in managing the entity, <i>the auditor also should communicate</i></p>
<p>(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</p>	

⁵ See AU section 333, *Management Representation*, paragraph .06, regarding the auditor's requirement to obtain written representation from management regarding uncorrected misstatements.

⁶ See paragraph .06 of AU section 333, *Management Representations (AICPA, Professional Standards, vol. 1)*, regarding the auditor's requirement to obtain written representation from management regarding uncorrected misstatements.

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communicated to management as required by ISA 315 (Redrafted) 7 , or ISA 330 (Redrafted),8;	
	<p>a. <i>material, corrected misstatements that were brought to the attention of management as a result of audit procedures. (Ref: par. A27)</i></p>
(ii) Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management (Ref: Par. A23); and	<p>b. significant matters<i>issues</i>, if any, arising from the audit that were discussed, or <i>the</i> subject to <i>of</i> correspondence ^a with management (Ref: Par. A28);and</p>
	<p>c. <i>the auditor's views about significant matters that were the subject of management's consultations with other accountants on accounting or auditing matters when the auditor is aware that such consultation has occurred⁹.</i></p>
(iii) Written representations the auditor is requesting; and	<p>d. written representations the auditor is requesting <i>(the written representations regarding the effects of uncorrected misstatements are an important part of the communication required by paragraph 13).</i> (Ref: par. A29)</p>
Auditor Independence	
13. In the case of listed entities, the auditor shall communicate with those charged with governance:	
(a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements	

7 ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment," paragraph 32.

8 ISA 330 (Redrafted), "The Auditor's Responses to Assessed Risks," paragraph 19.

⁹ *Circumstances in which the auditor should be informed of such consultations are described in AU section 625, Reports on the Application of Accounting Principles.*

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regarding independence; and	
<p>(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. 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</p>	
<p>(ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. (Ref: Par. A25-A27)</p>	
The Communication Process	The Communication Process
<i>Establishing the Communication Process</i>	<i>Establishing the Communication Process</i>
<p>14. The auditor shall communicate with those charged with governance the form, timing and expected general content of communications. (Ref: Par. A32-A40)</p>	<p>15. The auditor shall should communicate with those charged with governance the form, timing, and expected general content of communications. (Ref: par. A30–A34)</p>
	Confidentiality
	<p>16. <i>When the auditor communicates matters in accordance with this SAS in writing, the auditor should indicate in the communication that it is intended solely for the information and use of those charged with governance and, if appropriate, management, and is not intended to be, and should not be, used by anyone other than these specified parties.</i></p>
<i>Forms of Communication</i>	<i>Forms of Communication</i>
<p>15. The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit</p>	<p>17. The auditor shall should communicate in writing with those charged with governance regarding significant findings from the audit (<i>see paragraphs 12 through 16</i>) when, in the</p>

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<p>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: Par. A41-A43)</p>	<p>auditor's professional judgment, oral communication would not be adequate. Written <i>This communication</i> need not include all matters that arose during the course of the audit <i>that were communicated with those charged with governance and satisfactorily resolved.</i> (Ref: par. A35–A37)</p>
<p>16. The auditor shall communicate in writing with those charged with governance regarding auditor independence when required by paragraph 13.</p>	
<p><i>Timing of Communications</i></p>	<p><i>Timing of Communications</i></p>
<p>17. The auditor shall communicate with those charged with governance on a timely basis. (Ref: Par. A44-A45)</p>	<p>18. The auditor shall <i>should</i> communicate with those charged with governance on a <i>sufficiently</i> timely basis <i>to enable those charged with governance to take appropriate action.</i> (Ref: par. A38–A39)</p>
<p><i>Adequacy of the Communication Process</i></p>	<p><i>Adequacy of the Communication Process</i></p>
<p>18. 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 evaluate the effect, if any, on the auditor's assessment of the risks of material misstatements and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action. (Ref: Par. A46-A48)</p>	<p>19. The auditor shall <i>should</i> 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 <i>should</i> evaluate the effect, if any, on the auditor's assessment of the risks of material misstatements and ability to obtain sufficient appropriate audit evidence, and shall <i>should</i> take appropriate action. (Ref: par. A40–A42)</p>
<p>Documentation</p>	<p>Documentation</p>
<p>19. Where matters required by this ISA to be communicated are communicated orally, the auditor shall document them, and when, and to whom they were communicated. Where matters have been communicated in writing,</p>	<p>20. Where <i>When</i> matters required by this ISA <i>are by this SAS</i> to be communicated are <i>have been</i> communicated orally, the auditor shall <i>should</i> document them, and <i>including</i> when and to whom they were communicated.</p>

¹⁰ AU section 339, *Audit Documentation*, requires the auditor to document discussions of significant findings or issues with management and others (including those charged with governance) on a timely basis, including responses. AU section 339 also requires that the

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the auditor shall retain a copy of the communication as part of the audit documentation. (Ref: Par. A49)	¹⁰ Where When matters have been communicated in writing, the auditor shall should retain a copy of the communication as part of the audit documentation. (Ref: par. A43)
* * *	* * *
Application and Other Explanatory Material	Application and Other Explanatory Material
The Role of Communication (Ref: Par. 5)	The Role of Communication (Ref: par. 4)
A1. This ISA focuses primarily on communications from the auditor to those charged with governance. Nevertheless, effective two-way communication is important in assisting:	A1. This ISA SAS focuses primarily on communications from the auditor to those charged with governance. Nevertheless, effective two-way communication is 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;	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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.
(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.	<ul style="list-style-type: none"> • those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the financial

audit documentation include documentation of the significant findings or issues discussed, and when and with whom the discussions took place.

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	statements.
<p>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. Similarly, communication by management with those charged with governance of matters that 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.</p>	<p>A2. Although the auditor is responsible for communicating <i>specific</i> matters required by <i>in accordance with</i> this ISASAS, 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. Similarly, <i>management's</i> communication by management with <i>of these matters to</i> those charged with governance of matters that the auditor is required to communicate does not relieve the auditor of the responsibility to also communicate them. Communication <i>However, communication</i> of these matters by management may, however, affect the form or timing of the auditor's communication with those charged with governance.</p>
<p>A3. Clear communication of specific matters required to be communicated by ISAs is an integral part of every audit. ISAs do not, however, require the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance.</p>	<p>A3. Clear communication of specific matters required to be communicated by ISAs <i>generally accepted auditing standards</i> is an integral part of every audit. ISAs <i>However, generally accepted auditing standards</i> do not, however, require the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance.</p>
<p><i>Legal or Regulatory Restrictions on Communicating with Those Charged with Governance</i></p>	<p>Legal or Regulatory Restrictions on Communicating With Those Charged With Governance (Ref: par. 5)</p>
<p>A4. Laws or regulations may restrict the auditor's communication of certain matters with those charged with governance. 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 some circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such</p>	<p>A4. Laws or regulations may restrict the auditor's communication of certain matters with those charged with governance. 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 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</p>

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cases, the auditor may consider obtaining legal advice.	advice.
Those Charged with Governance (Ref: Par. 7)	Those Charged With Governance (Ref: par. 7)
A5. Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. For example:	A5. Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. For example,
<ul style="list-style-type: none"> 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). 	<ul style="list-style-type: none"> 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).
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> in some entities, those charged with governance hold positions (for example, company directors) that are an integral parts of the entity’s legal structure, e.g., company directors. In others, e.g., some government, For other entities, a body that is not part of the entity is charged with governance, as with some government agencies.
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> in some cases, some or all of those charged with governance are involved in managing the entity. also have management responsibilities. In others, those charged with governance and management comprise are different persons people.
A6. In most entities, governance is the collective responsibility of a governing body, such as a board of directors, a supervisory	A6. In most entities, governance is the collective responsibility of a governing body, such as a board of directors, a supervisory

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<p>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.</p>	<p>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., such as 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.</p>
<p>A7. 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 applicable legal framework or other 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 such cases, the auditor may need to discuss and agree with the engaging party the relevant person(s) with whom to communicate. In deciding with whom to communicate, the auditor's understanding of an entity's governance structure and processes obtained in accordance with ISA 315 (Redrafted) is relevant. The appropriate person(s) with whom to communicate may vary depending on the matter to be communicated.</p>	<p>A7. Such diversity means that it is not possible for this ISASAS 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 applicable legal framework or other engagement circumstances, e.g.,. <i>An example of this is entities wherein which the governance structure is structures are</i> not formally defined, such as some family-owned entities, some not-for-profit organizations, and some government entities. In such cases, the auditor may need to discuss and agree with the engaging party the relevant person(s) with whom to communicate. <i>When the appropriate person(s) with whom to communicate is not clearly identifiable, the auditor and the engaging party may need to discuss and agree on the relevant person(s) within the entity's governance structure with whom the auditor will communicate.</i> In deciding with whom to communicate, the auditor's understanding of an entity's governance structure and processes obtained in accordance with ISA 315 (Redrafted)AU section 314, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, (AICPA, Professional Standards, vol. 1) is relevant. The appropriate</p>

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	person(s) with whom to communicate may vary depending on the matter to be communicated.
<p>A8. ISA 600 (Revised and Redrafted)¹¹ 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.</p>	<p>A8.—ISA 600 (Revised and Redrafted)¹² includes specific matters to be communicated by group auditors with those charged with governance. When the entity <i>being audited</i> is a component¹³ of a group,¹⁴ the appropriate person(s) with whom the component auditor communicates depends on the engagement circumstances and the <i>to communicate is dependent on the nature of the</i> matter to be communicated. In some cases, a number <i>and the terms</i> 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.<i>the engagement.</i></p>
<p><i>Communication with a Subgroup of Those Charged with Governance</i> (Ref: Par. 8)</p>	<p><i>Communication With a the Audit Committee or Other Subgroup of Those Charged With Governance</i> (Ref: par. 8)</p>
<p>A9. When considering communicating with a subgroup of those charged with governance, the auditor may take into account such matters as:</p>	<p>A9. When considering communicating with a subgroup of those charged with governance, the auditor may take into account <i>matters</i> such matters-as:</p>
<ul style="list-style-type: none"> • The respective responsibilities of the subgroup and the governing body. 	<ul style="list-style-type: none"> • the respective responsibilities of the subgroup and the governing body.
<ul style="list-style-type: none"> • The nature of the matter to be 	<ul style="list-style-type: none"> • the nature of the matter to be

¹¹ ISA 600 (Revised and Redrafted), “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors),” paragraphs 46-49.

13 *Component means an entity or business activity for which group or component management prepares financial information that is included, or should be included, in the group financial statements.*

14 *Group means all the components whose financial information is included in the group financial statements. A group always has more than one component.*

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communicated.	communicated.
<ul style="list-style-type: none"> Relevant legal or regulatory requirements. 	<ul style="list-style-type: none"> relevant legal or regulatory requirements.
<ul style="list-style-type: none"> Whether the subgroup (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. 	<ul style="list-style-type: none"> whether the subgroup (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.
	<ul style="list-style-type: none"> <i>whether the auditor is aware of potential conflicts of interest between the subgroup and other members of the governing body.</i>
<p>A10. When deciding whether there is also a need to communicate information, in full or in summary form, with the governing body, the auditor may be influenced by the auditor's assessment of how effectively and appropriately the subgroup 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.</p>	<p>A10. When deciding whether there is also a need to communicate information, in full or in summary form, with the governing body, the auditor may be influenced by the auditor's assessment of how effectively and appropriately the subgroup communicates relevant information with the governing body. The auditor may make explicit in agreeing the terms of <i>the</i> engagement that, unless prevented by laws or regulations, the auditor retains the right to communicate directly with the governing body.</p>
<p>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:</p>	<p>A11. Audit committees (or similar subgroups with different names) exist in many jurisdictions. <i>entities.</i> Although their <i>the</i> specific authority and functions <i>of audit committees</i> may differ, communication with the audit committee, where one exists, has become <i>is</i> a key element in the auditor's communication with those charged with governance. Good governance principles suggest that</p>
<ul style="list-style-type: none"> The auditor will be invited to regularly attend meetings of the audit committee. 	<ul style="list-style-type: none"> the auditor will be invited <i>has access</i> to regularly attend meetings of the audit committee <i>as necessary.</i>
<ul style="list-style-type: none"> The chair of the audit committee and, when relevant, the other members of the audit committee, 	<ul style="list-style-type: none"> the chair of the audit committee and, when relevant, the other members of the audit committee, will liaise <i>meet</i>

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will liaise with the auditor periodically.	with the auditor periodically.
<ul style="list-style-type: none"> The audit committee will meet the auditor without management present at least annually. 	<ul style="list-style-type: none"> the audit committee will meet meets <i>with</i> the auditor without management present at least annually.
<p><i>When All of Those Charged with Governance are Involved in Managing the Entity</i> (Ref: Par. 9)</p> <p>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 involved in managing the entity, some of those directors (e.g., one responsible for marketing) may be unaware of significant matters discussed with another director (e.g., one responsible for the preparation of the financial statements).</p>	
Matters to be Communicated	Matters to Be Communicated
<p><i>The Auditor's Responsibilities in Relation to the Financial Statement Audit</i> (Ref: Par. 10)</p>	<p><i>The Auditor's Responsibilities in Relation to the Financial Statement Audit Under Generally Accepted Auditing Standards</i> (Ref: par. 10)</p>
<p>A13. The auditor's responsibilities in relation to the financial statement audit are often included in the engagement letter or other suitable form of written agreement that records the agreed terms of the engagement. Providing those charged with governance with a copy of that engagement letter or other suitable form of written agreement may be an appropriate way to communicate with them regarding such matters as:</p>	<p>A12. The auditor's responsibilities in relation with regard to the financial statement audit are often included in the engagement letter or other suitable form of written agreement that records documents the agreed terms of the engagement. Providing those charged with governance with a copy of that engagement letter or other suitable form of written agreement may be an appropriate way to communicate with them regarding such matters as: that</p>
<ul style="list-style-type: none"> The auditor's responsibility for 	<ul style="list-style-type: none"> the auditor's responsibility auditor is

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<p>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.</p>	<p><i>responsible</i> for performing the audit in accordance with ISAs, which is directed towards the expression of an opinion on the generally accepted auditing standards, and that the audit is designed to obtain <i>reasonable, rather than absolute, assurance about whether the</i> 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 <i>are free of material misstatement.</i></p>
	<ul style="list-style-type: none"> • <i>an audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting.</i>
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • <i>the auditor is responsible for communicating significant matters related to the financial statement audit that are, in the auditor's professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.</i> The fact that ISAs <i>Generally accepted auditing standards</i> do not require the auditor to design procedures for the purpose of identifying supplementary other matters to communicate with those charged with governance.
<ul style="list-style-type: none"> • When applicable, the auditor's responsibility for communicating 	<ul style="list-style-type: none"> • when applicable, the auditor's responsibility for <i>auditor is also</i>

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<p>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.</p>	<p><i>responsible for</i> 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.</p>
<p>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.</p>	
<p><i>Auditor Independence</i> (Ref: Par. 13)</p>	<p><i>Independence</i> (Ref: par. 10)</p>
<p>A25. The auditor is subject to independence and other ethical requirements, which ordinarily comprise Parts A and B of the International Federation of Accountants' Code of Ethics for Professional Accountants related to an audit of financial statements together with national requirements that are more restrictive¹⁵.</p>	<p>A13. Generally accepted auditing standards require independence for all audits. Relevant matters to consider in reaching a conclusion about independence include circumstances or relationships that create threats to auditor independence and the related safeguards that have been applied to eliminate those threats or reduce them to an acceptable level.¹⁶</p>

15 [Proposed] ISA 200 (Revised and Redrafted), "Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing," paragraph.

16 *Comprehensive material on threats to independence and safeguards, including application to specific situations, is set forth in the AICPA's Conceptual Framework for AICPA Independence Standards.*

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<p>A26. The relationships and other matters, and safeguards to be communicated, vary with the circumstances of the engagement, but generally address:</p> <p>(a) Threats to independence, which may be categorized as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and</p> <p>(b) Safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.</p> <p>The communication required by paragraph 13(a) may include an inadvertent violation of relevant ethical requirements as they relate to auditor independence, and any remedial action taken or proposed.</p>	<p>A14. <i>Although the auditor's report affirms the auditor's independence, in certain situations, particularly for public interest entities, 17 the auditor may determine that it is appropriate to communicate with those charged with governance circumstances or relationships (for example, financial interests, business or family relationships, or nonaudit services provided or expected to be provided) that, in the auditor's professional judgment, may reasonably be thought to bear on independence, and that the auditor gave significant consideration to, in reaching the conclusion that independence has not been impaired.</i></p>
<p>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. On the other hand, there may be situations where communications regarding independence may not be relevant, e.g., where all of those charged with governance have been informed</p>	<p>A15. <i>The form and timing of communications regarding independence may be affected by the entity's governance structure and whether a formal subgroup, such as an audit committee, exists. In situations in which all of those charged with governance are involved in managing the entity, the auditor may determine that those charged with governance have been informed of relevant facts regarding the auditor's independence through their management activities or through other means, such as the engagement letter. This is particularly likely when the entity is owner-managed and the auditor's firm has little involvement with the entity beyond a financial statement audit.</i></p>

17 In addition to entities subject to Securities and Exchange Commission reporting requirements, the Conceptual Framework for AICPA Independence Standards considers the following entities to be public interest entities: (1) employee benefit and health and welfare plans subject to Employee Retirement Income Security Act audit requirements, (2) governmental retirement plans, (3) entities or programs (including for-profit entities) subject to Single Audit Act OMB Circular A-133 audit requirements and entities or programs subject to similar program oversight, and (4) financial institutions, credit unions, and insurance companies. These entities are public interest entities because their audited financial statements are directly relied upon by significant numbers of stakeholders to make investment, credit, or similar decisions or indirectly relied upon through regulatory oversight (for example, in the case of pension plans, banks, and insurance companies) and, therefore, the potential extent of harm to the public from an audit failure involving one of these entities would generally be significant.

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<p>of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor’s firm and network firms have little involvement with the entity beyond a financial statement audit.</p>	
<p><i>Planned Scope and Timing of the Audit</i> (Ref: Par. 11)</p>	<p><i>Planned Scope and Timing of the Audit</i> (Ref: par. 11)</p>
<p>A16. 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.</p>	<p>A16. 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 wherewhen 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. <i>Certain factors described in paragraph A36 may be relevant in determining the nature and extent of this communication.</i></p>
<p>A15. Communication regarding the planned scope and timing of the audit may:</p>	<p>A17. Communication regarding the planned scope and timing of the audit may <i>assist</i></p>
<p>(a) Assist those charged with governance to understand better the consequences of the auditor’s work, to discuss issues of risk and materiality with the auditor, and to identify any areas in which they may request the auditor to undertake additional procedures; and</p>	<ul style="list-style-type: none"> • Assist those charged with governance to understand better the consequences of the auditor’s work, to discuss issues of risk and materiality with the auditor, and to identify any areas in which they may request the auditor to undertake additional procedures;
	<ul style="list-style-type: none"> • <i>those charged with governance to discuss issues of risk and materiality with the auditor, particularly when is a robust discussion of risks affecting the entity and its financial statements and the auditor’s plans to address</i>

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	<i>them; and</i>
(b) Assist the auditor to understand better the entity and its environment	<ul style="list-style-type: none"> • Assist the auditor to understand better the entity and its environment.
A17. Matters communicated may include the following:	A18. Matters communicated may include the following:
<ul style="list-style-type: none"> • How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error. 	<ul style="list-style-type: none"> • How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error
<ul style="list-style-type: none"> • The auditor’s approach to internal control relevant to the audit. 	<ul style="list-style-type: none"> • The auditor’s approach to internal control relevant to the audit <i>including, when applicable, whether the auditor will express an opinion on the effectiveness of internal control over financial reporting</i>
<ul style="list-style-type: none"> • The application of materiality in the context of an audit.¹⁸ 	<ul style="list-style-type: none"> • The application of materiality in the context of an audit, <i>as discussed in AU section 312, Audit Risk and Materiality in Conducting an Audit (AICPA, Professional Standards, vol. 1)</i>
See first bullet in A18 below	<ul style="list-style-type: none"> • <i>If 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</i>
A18. Other planning matters that it may be appropriate to discuss with those charged with governance include:	A19. Other planning matters that it may be appropriate to discuss <i>the auditor may consider discussing</i> with those charged with governance include
<ul style="list-style-type: none"> • 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 	See last bullet in paragraph A18 above.

¹⁸ [Proposed] ISA 320 (Revised and Redrafted), “Materiality in Planning and Performing an Audit.”

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together in a constructive and complementary manner.	
<ul style="list-style-type: none"> The views of those charged with governance of: 	<ul style="list-style-type: none"> the views of those charged with governance of about the following matters:
<ul style="list-style-type: none"> — The appropriate person(s) in the entity's governance structure with whom to communicate. 	<ul style="list-style-type: none"> — The appropriate person(s) in the entity's governance structure with whom to communicate
<ul style="list-style-type: none"> — The allocation of responsibilities between those charged with governance and management. 	<ul style="list-style-type: none"> — The allocation of responsibilities between those charged with governance and management
<ul style="list-style-type: none"> — The entity's objectives and strategies, and the related business risks that may result in material misstatements. 	<ul style="list-style-type: none"> — The entity's objectives and strategies, and the related business risks that may result in material misstatements
<ul style="list-style-type: none"> — Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken. 	<ul style="list-style-type: none"> — Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken
<ul style="list-style-type: none"> — Significant communications with regulators. 	<ul style="list-style-type: none"> — Significant communications with regulators
<ul style="list-style-type: none"> — Other matters those charged with governance consider may influence the audit of the financial statements. 	<ul style="list-style-type: none"> — Other matters those charged with governance consider may influence believe are relevant to the audit of the financial statements
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 the possibility of fraud.
<ul style="list-style-type: none"> The actions of those charged with governance in response to developments in accounting standards, corporate governance practices, exchange listing rules, and 	<ul style="list-style-type: none"> the actions of those charged with governance in response to developments in financial reporting, laws, accounting standards, corporate governance practice,

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related matters.	exchange listing rules , and <i>other</i> related matters.
<ul style="list-style-type: none"> The responses of those charged with governance to previous communications with the auditor. 	<ul style="list-style-type: none"> the responses <i>actions</i> of those charged with governance <i>in response</i> 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 establish the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.	A20. While <i>Although</i> 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.
<i>Significant Findings from the Audit</i> (Ref: Par. 12)	<i>Significant Findings From the Audit</i> (Ref: par. 12)
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.	A21. The communication of <i>significant</i> 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: Par. 12(a))	<i>Significant Qualitative Aspects of the Entity's</i> <i>Significant Accounting Practices</i> (Ref: par. 12a)
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 identifies matters that may be included in this communication.	A22. Financial reporting frameworks ordinarily allow for <i>Generally accepted accounting principles provide for</i> 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 <i>significant</i> accounting practices may include comment on the acceptability of significant accounting practices. Appendix A identifies matters that may be included in this communication.

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Significant Difficulties Encountered During the Audit (Ref: Par. 12(b))	<i>Significant Difficulties Encountered During the Audit</i> (Ref: par. 12b)
A22. Significant difficulties encountered during the audit may include such matters as:	A23. Significant difficulties encountered during the audit may include such matters <i>such</i> as
<ul style="list-style-type: none"> • Significant delays in management providing required information. 	<ul style="list-style-type: none"> • significant delays in management providing required information
<ul style="list-style-type: none"> • An unnecessarily brief time within which to complete the audit. 	<ul style="list-style-type: none"> • an unnecessarily brief time within which to complete the audit
<ul style="list-style-type: none"> • Extensive unexpected effort required to obtain sufficient appropriate audit evidence. 	<ul style="list-style-type: none"> • extensive unexpected effort required to obtain sufficient appropriate audit evidence
<ul style="list-style-type: none"> • The unavailability of expected information. 	<ul style="list-style-type: none"> • the unavailability of expected information
<ul style="list-style-type: none"> • Restrictions imposed on the auditor by management. 	<ul style="list-style-type: none"> • restrictions imposed on the auditor by management
<ul style="list-style-type: none"> • Management’s unwillingness to make or extend its assessment of the entity’s ability to continue as a going concern when requested. 	<ul style="list-style-type: none"> • management’s unwillingness to make or extend its assessment <i>provide information about management’s plans for dealing with the adverse effects of the entity’s conditions or events that lead the auditor to believe there is substantial doubt about the entity’s ability to continue as a going concern when requested.</i>
In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor’s opinion. ¹⁹	In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor’s opinion.
	<i>Disagreements With Management</i> (Ref: par. 12c)
	A24. <i>Discussions with those charged with governance include any disagreements with management that arose during the audit, regardless of whether they were satisfactorily resolved, about matters that, individually or in the aggregate, could be significant to the</i>

¹⁹ [Proposed] ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report.”
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	<p><i>entity's financial statements or the auditor's report. Disagreements with management may occasionally arise over, among other things, the application of accounting principles to the entity's specific transactions and events, and the basis for management's judgments about accounting estimates. Disagreements may also arise regarding the scope of the audit, disclosures to be included in the entity's financial statements, and the wording of the auditor's report. For purposes of this SAS, disagreements do not include differences of opinion based on incomplete facts or preliminary information that are later resolved.</i></p>
	<p><i>Uncorrected Misstatements (Ref: par. 13a and 13b)</i></p>
	<p><i>A25. When there are a large number of small uncorrected misstatements, the auditor may communicate the number and overall monetary effect of the uncorrected misstatements rather than the details of each individual uncorrected misstatement.</i></p>
	<p><i>A26. To reduce the possibility of misunderstandings, the auditor may request a written representation from those charged with governance that explains why uncorrected misstatements brought to their attention have not been corrected. Obtaining this representation does not, however, relieve the auditor of the need to form a conclusion on the effect of uncorrected misstatements.</i></p>
	<p><i>Corrected Misstatements (Ref: par. 14a)</i></p>
	<p><i>A27. The auditor also may communicate corrected immaterial misstatements, such as frequently recurring immaterial misstatements that may indicate a particular bias in the preparation of the financial statements.</i></p>

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Significant Matters Discussed, or Subject to Correspondence with Management (Ref: Par. 12(c) (ii))	<i>Significant Matters—Issues Discussed, or Subject to Correspondence With Management</i> (Ref: par. 14b)
A23. Significant matters discussed, or subject to correspondence with management may include such matters as:	A28. Significant matters issues discussed, or <i>the</i> subject to <i>of</i> correspondence, with management may include such matters such as
<ul style="list-style-type: none"> • Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. 	<ul style="list-style-type: none"> • business conditions affecting the entity and business plans and strategies that may affect the risks of material misstatement.
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Concerns about management’s consultations with other accountants on accounting or auditing matters. <p>discussions or correspondence in connection with the initial or recurring appointment <i>retention</i> of the auditor <i>including, among other matters, any discussions or correspondence</i> regarding accounting practices, the application of auditing standards, or fees for audit or other services <i>accounting principles and auditing standards.</i></p>
	Written Representations (Ref: par. 14d)
	A29. <i>The auditor may provide those charged with governance with a copy of management’s written representations.</i>
Other Significant Matters Relevant to the Financial Reporting Process (Ref: Par. 12(d))	
A24. 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.	

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<i>Supplementary Matters</i> (Ref: Par. 3)	
<p>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.</p>	
<p>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, and significant decisions or actions by senior management that lack appropriate authorization.</p>	
<p>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.</p>	

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<p>A31. If a supplementary matter is communicated, it may be appropriate for the auditor to make those charged with governance aware that:</p> <p>(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;</p> <p>(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</p> <p>No procedures were carried out to determine whether other such matters exist.</p>	
<p>The Communication Process</p>	<p>The Communication Process</p>
<p><i>Establishing the Communication Process</i> (Ref: Par. 14)</p>	<p><i>Establishing the Communication Process</i> (Ref: par. 15)</p>
<p>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.</p>	<p>A30. Clear communication of the auditor’s responsibilities (<i>paragraphs 10 and A12–A15</i>), <i>an overview of</i> the planned scope and timing of the audit (<i>paragraphs 11 and A16 – A20</i>), and the expected general content of communications helps establish the basis for effective two-way communication.</p>
<p>A33. Matters that may also contribute to effective two-way communication include discussion of:</p>	<p>A31. Matters that may also contribute to effective two-way communication include discussion of</p>
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • the purpose of communications. When the purpose is clear, the auditor and those charged with governance are <i>in a</i> better placed <i>position</i> to have a mutual understanding of relevant issues and the expected actions arising from the communication process.
<ul style="list-style-type: none"> • The form in which communications will be made. 	<ul style="list-style-type: none"> • the form in which communications will be made.
<ul style="list-style-type: none"> • The person(s) in the audit team and 	<ul style="list-style-type: none"> • the person(s) in <i>on</i> the audit team

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amongst those charged with governance who will communicate regarding particular matters.	and amongst those charged with governance who will communicate regarding particular matters.
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. Such matters might include strategic decisions that may significantly affect (a) the nature, timing, and extent of audit procedures; (b) the suspicion or the detection of fraud, and; or (c) concerns with the integrity or competence of senior management.
<ul style="list-style-type: none"> The process for taking action and reporting back on matters communicated by the auditor. 	<ul style="list-style-type: none"> the process for taking action and reporting back on matters communicated by the auditor.
<ul style="list-style-type: none"> The process for taking action and reporting back on matters communicated by those charged with governance. 	<ul style="list-style-type: none"> the process for taking action and reporting back on matters communicated by those charged with governance.
<p>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 A48).</p>	<p>A32. 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 A42).</p>
<p>Considerations Specific to Smaller Entities</p>	
<p>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.</p>	

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Communication with Management	<i>Communication With Management</i>
<p>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.</p>	<p>A33. 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 <i>in accordance with this SAS.</i> 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.</p>
<p>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.</p>	<p>A34. 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 <i>with management</i> 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.</p>
Communication with Third Parties	
<p>A38. 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 may be important in the circumstances 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:</p>	<p>See paragraph 17</p>

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<p>(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;</p> <p>(b) That no responsibility is assumed by the auditor to third parties; and</p> <p>Any restrictions on disclosure or distribution to third parties.</p>	
<p>A39. In some jurisdictions the auditor may be required by laws or regulations to, for example:</p> <ul style="list-style-type: none"> • 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; • Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies, or other bodies such as a central authority in the case of some public sector entities; or • Make reports prepared for those charged with governance publicly available. 	
<p>A40 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 need the prior consent of those charged with governance before doing so.</p>	
<p><i>Forms of Communication</i> (Ref: Par. 15-16)</p>	<p><i>Forms of Communication</i> (Ref: par. 17)</p>
<p>A41. Effective communication may involve structured presentations and written reports as well as less structured communications,</p>	<p>A35. Effective communication may involve structured formal presentations and written reports as well as less structured</p>

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including discussions. The auditor may communicate matters other than those identified in paragraphs 15 and 16 either orally or in writing. Written communications may include an engagement letter that is provided to those charged with governance.	<i>formal</i> communications, including discussions. The auditor may communicate matters other than those identified in paragraphs 15 and 16 <i>paragraph 17</i> 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:	A36. In addition to the significance of a particular matter, the form of communication (e.g., <i>for example</i> , 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 <i>formal or informal</i> manner) may be affected by such factors <i>such</i> as
<ul style="list-style-type: none"> • Whether the matter has been satisfactorily resolved. 	<ul style="list-style-type: none"> • whether the matter has been satisfactorily resolved.
<ul style="list-style-type: none"> • Whether management has previously communicated the matter. 	<ul style="list-style-type: none"> • whether management has previously communicated the matter.
<ul style="list-style-type: none"> • The size, operating structure, control environment, and legal structure of the entity. 	<ul style="list-style-type: none"> • the size, operating structure, control environment, and legal structure of the entity <i>being audited</i>.
<ul style="list-style-type: none"> • Legal requirements. In some jurisdictions, a written communication with those charged with governance is required in a prescribed form by local law. 	<ul style="list-style-type: none"> • legal <i>or regulatory</i> requirements. In some jurisdictions, that may require a written communication with those charged with governance is required in a prescribed form by local law.
<ul style="list-style-type: none"> • The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor. 	<ul style="list-style-type: none"> • the expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
<ul style="list-style-type: none"> • The amount of ongoing contact and dialogue the auditor has with those charged with governance. 	<ul style="list-style-type: none"> • the amount of ongoing contact and dialogue the auditor has with those charged with governance.
<ul style="list-style-type: none"> • Whether there have been significant changes in the membership of a 	<ul style="list-style-type: none"> • whether there have been significant changes in the membership of a

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governing body.	governing body.
<ul style="list-style-type: none"> In the case of a special purpose financial statement audit, whether the auditor also audits the entity's general purpose financial statements. 	<ul style="list-style-type: none"> in the case of a special purpose financial statement audit, whether the auditor also audits the entity's general purpose financial statements.
<p>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.</p>	<p>A37. When a significant matter is discussed with an individual member of those charged with governance, e.g., such as the chair of an audit committee, it may be appropriate for the auditor to summarize the matter in later communications so that all of those charged with governance have full and balanced information.</p>
<p><i>Timing of Communications</i> (Ref: Par. 17)</p>	<p><i>Timing of Communications</i> (Ref: par.18)</p>
<p>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:</p>	<p>A38. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances Considerations include the significance and nature of the matter, and the action expected to be taken by those charged with governance. For example: The auditor may consider communicating</p>
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> 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 be appropriate to communicate material weaknesses in the design, implementation or operating effectiveness of internal control that 	<ul style="list-style-type: none"> 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 in overcoming the difficulties, or if it is the difficulties are likely to lead to a modified opinion. Similarly, it may be appropriate to communicate material weaknesses in the design,

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<p>have come to the auditor's attention as soon as practicable.</p>	<p>implementation or operating effectiveness of internal control that have come to the auditor's attention as soon as practicable.</p>
<ul style="list-style-type: none"> 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. 	
<ul style="list-style-type: none"> When auditing both general purpose and special purpose financial statements, it may be appropriate to coordinate the timing of communications. 	<p>See last bullet of A39</p>
<p>A45. Other factors that may be relevant to the timing of communications include:</p>	<p>A39. Other factors that may be relevant to the timing of communications include</p>
<ul style="list-style-type: none"> The size, operating structure, control environment, and legal structure of the entity being audited. 	<ul style="list-style-type: none"> the size, operating structure, control environment, and legal structure of the entity being audited.
<ul style="list-style-type: none"> Any legal obligation to communicate certain matters within a specified timeframe. 	<ul style="list-style-type: none"> any legal obligation to communicate certain matters within a specified timeframe.
<ul style="list-style-type: none"> The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor. 	<ul style="list-style-type: none"> the expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
<ul style="list-style-type: none"> The time at which the auditor identifies certain matters, e.g., the auditor may not identify a particular matter (e.g., noncompliance with a 	<ul style="list-style-type: none"> the time at which the auditor identifies certain matters, e.g., the auditor may not identify a particular matter (e.g., noncompliance with a

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<p>law) in time for preventive action to be taken, but communication of the matter may enable remedial action to be taken.</p>	<p>law) in time (for preventive action to be taken, but example, timely communication of the matter may a material weakness to enable appropriate remedial action to be taken)</p>
	<ul style="list-style-type: none"> • Whether the auditor is auditing both general purpose and special purpose financial statements.
<p><i>Adequacy of the Communication Process</i> (Ref: Par. 18)</p>	<p><i>Adequacy of the Communication Process</i> (Ref: par. 19)</p>
<p>A46. The auditor need not design specific procedures to support the evaluation of the two-way communication between the auditor and those charged with governance; rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. Such observations may include:</p>	<p>A40. The auditor need not design specific procedures to support the evaluation of the two-way communication between the auditor and those charged with governance; rather, Rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. Such observations may include</p>
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • the appropriateness and timeliness of actions taken by those charged with governance in response to matters raised communicated by the auditor. Where When significant matters findings or issues 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.
<ul style="list-style-type: none"> • The apparent openness of those charged with governance in their communications with the auditor. 	<ul style="list-style-type: none"> • the apparent openness of those charged with governance in their communications with the auditor.
<ul style="list-style-type: none"> • The willingness and capacity of those charged with governance to meet with the auditor without 	<ul style="list-style-type: none"> • the willingness and capacity of those charged with governance to meet with the auditor without management

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management present.	present.
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> the apparent ability of those charged with governance to fully comprehend matters raised by the auditor, e.g., such as the extent to which those charged with governance probe issues, and question recommendations made to them.
<ul style="list-style-type: none"> Difficulty in establishing with those charged with governance a mutual understanding of the form, timing and expected general content of communications. 	<ul style="list-style-type: none"> difficulty in establishing with those charged with governance a mutual understanding of the form, timing and expected general content of communications.
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Whether the two-way communication between the auditor and those charged with governance meets applicable legal and regulatory requirements. 	
<p>A47. As noted in paragraph A1, effective two-way communication assists both the auditor and those charged with governance. Further, ISA 315 (Redrafted)²⁰ 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. There is also a risk that the auditor may not have obtained sufficient</p>	<p>A41. As noted discussed in paragraph A1, effective two-way communication assists both the auditor and those charged with governance. Further, ISA 315 (Redrafted) AU section 314 identifies participation by those charged with governance, including their interaction with internal auditors; (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, which will influence the auditor's assessment of the risks of material misstatements. There is also a risk that the auditor may not have obtained sufficient appropriate audit evidence to form</p>

²⁰ ISA 315 (Redrafted), paragraph A66

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appropriate audit evidence to form an opinion on the financial statements.	an opinion on the financial statements.
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:	A42. 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 <i>such as the following</i> :
<ul style="list-style-type: none"> • Modifying the auditor's opinion on the basis of a scope limitation. 	<ul style="list-style-type: none"> • Modifying the auditor's opinion on the basis of a scope limitation
<ul style="list-style-type: none"> • Obtaining legal advice about the consequences of different courses of action. 	<ul style="list-style-type: none"> • Obtaining legal advice about the consequences of different courses of action
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Communicating with third parties (e.g. <i>for example</i>, a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (e.g. <i>for example</i>, shareholders in a general meeting), or the responsible government minister or parliament in the public sector. <i>agency for certain governmental entities</i>
<ul style="list-style-type: none"> • Withdrawing from the engagement where permitted in the relevant jurisdiction. 	<ul style="list-style-type: none"> • Withdrawing from the engagement where permitted in the relevant jurisdiction.
Documentation (Ref: Par. 19)	Documentation (Ref: Par. 20)
A49. Documentation of oral communication may include a copy of minutes prepared by the entity retained as part of the audit documentation where those minutes are an appropriate record of the communication.	A43. Documentation of oral communication may include a copy of minutes prepared by the entity retained as part of the audit documentation where <i>if</i> those minutes are an appropriate record of the communication.