

SYNOPSIS

SA 260 — Communication With Those Charged with Governance

— Effective since April 1, 2009

The SA, in recognition of the significance of two-way communication during an audit of financial statements, or for that matter any other engagement, deals with the auditor's responsibility to communicate with those charged with governance, more particularly when those charged with governance are involved also in managing an entities, and for listed entities. Though the management also has a responsibility to communicate matters of governance interest to those charged with governance, this SA focuses, as suggests its title, on communication from the auditor to those charged with governance. Briefly, '*Those Charged with Governance*' are defined to mean – 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 its accountability, which includes overseeing financial reporting process. For some entities those charged with governance may include management personnel, e.g. executive members of a governance board or an owner-manager. Where governance is a collective responsibility, a sub-group such as an audit committee or even an individual may be charged with specific tasks to assist the governing body in meeting its responsibilities.

II. With the underlined purpose of facilitating the auditor perform effectively, the requirements of this Standard are designed to achieve his objectives to –

- (a) Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statements audit, and an overview of the planned 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 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

III. Who all to communicate with ?

The Standard requires the auditor to –

- (a) determine who to communicate with, i.e., the appropriate person(s) within the entity's governance structure,

- (b) determine, where the auditor communicates with a sub-group of those charged with governance, whether he needs also to communicate with the governing body

Where, e.g. a small business managed by its single owner, and there is no one else assigned with the specific role of governance, the matters required by the Standard are communicated with the person(s) with the management responsibilities, and such person(s) also have a governance role, the auditor need not communicate the matters again with the same person(s) in their governance role.

III. What all to communicate ?

The Standard requires the auditor to communicate matters in relation to auditor's responsibilities, planned scope and timing of the audit, significant findings from the audit, auditor's independence, communication process etc. and the same include —

- (a) his responsibilities as an auditor in relation to financial statement audit
- (b) his responsibility to form and expression an opinion on the financial statements prepared by the entity
- (c) overview of the planned scope and timing of the audit
- (d) his views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures, and where applicable, to those charged with governance why the auditor consider a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the entity's particular circumstances
- (e) significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management
- (f) written representations requested by the auditor
- (g) where applicable, all relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be brought to bear on independence. This includes total fees charged during the relevant period for audit and non-audit services provide by the firm, network firms and components controlled by the entity.
- (h) the form, timing and expected general contents of communication

- (i) Any other matters arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
- (j) In the case of listed entities —
 - (i) 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 standards
 - (ii) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be brought to bear on independence. This includes total fees charged during the relevant period for audit and non-audit services provide by the firm, network firms and components controlled by the entity.
 - (iii) Related safeguards applied to eliminate identified threats to independence or reduce them to an acceptable level.

Further, the Standard requires the auditor to evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of audit. If not, he is required to evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and take appropriate action.

With regard to documentation, the Standard requires the auditor, where the matters required to be communicated are communicated orally, to document them, including when and to whom they were communicated. Where such matters are communicated in writing, a copy is required to be retained as part of documentation.
