

ASA 260 Communication of Audit Matters with Those Charged With Governance

(Conformity with ISA 260 *Communication of Audit Matters with Those Charged With Governance*)
(Superseded Australian auditing standard – AUS 710 *Communicating with Management on Matters Arising from an Audit*)

OBJECTIVE

The objective of ASA 260 *Communication of Audit Matters with Those Charged With Governance* is to prescribe mandatory requirements in relation to communication of audit matters arising from the audit of the financial report between the auditor and those charged with governance of an entity.

EXTENT OF CHANGE FROM AUS 710



KEY ASA 260 ASPECTS TO NOTE

- Bold-letter paragraphs: 7 compared to 5 previously, and of the previous 5, equivalents of 2 now appear in ASA 230 *Audit Documentation*.
- Requirements of a professional accounting body, legislation or regulation may impose obligations of confidentiality or requirements to report to a regulatory authority certain matters.
- Definitions have changed from AUS 710, particularly in relation to “management”. In ASA 260, “management” includes officers and others who also perform senior managerial functions. Management includes those charged with governance only in those instances when they perform such functions. However, in AUS 710 ‘management’ meant the governing body, audit committee, individual members of the governing body, officer(s) and/or other person(s) having responsibility for planning and directing the activities of an entity.
- Audit matters of governance interest are ordinarily reported in writing to the governing body or audit committee. The auditor ordinarily considers attending a meeting of the governing body or audit committee, when all members are present, to discuss such matters as appropriate; and any guidelines established by the governing body for reporting issues to, for example, an audit committee, or individuals with particular responsibility for audit issues.
- Audit matters of governance interest include only those matters that have come to the attention of the auditor as a result of the performance of the audit. The auditor is not required to design audit procedures for the specific purpose of identifying matters of governance interest.
- When audit matters of governance interest are communicated orally, under ASA 230 *Audit Documentation*, the auditor needs to document the matters communicated and any responses to those matters.
- Uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial report taken as a whole, must be reported to those charged with governance.
- If concern exists that a written report intended for those charged with governance has not been, or may not be distributed to all members of that group, the auditor must implement an approach whereby all members are appropriately informed of the contents of the report.
- Audit matters of governance interest previously communicated that continue to be a matter of governance interest may need to be communicated again with those charged with governance.
- Communications between the auditor and those charged with governance cannot be regarded as a substitute for a modified auditor’s report.

APPLICATION

Financial reporting periods commencing on or after 1 July 2006.

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MAIN FEATURES

COMMUNICATING AUDIT MATTERS OF GOVERNANCE INTEREST	
ASA 260.5	'The auditor shall communicate audit matters of governance interest arising from the audit of the financial report with those charged with governance of an entity.'
GUIDANCE	The explanatory guidance in ASA 260 explains that "audit matters of governance interest" means those matters that arise from the audit of the financial report and, in the opinion of the auditor, are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. Audit matters of governance interest include only those matters that have come to the attention of the auditor as a result of the performance of the audit. The auditor is not required to design audit procedures for the specific purpose of identifying matters of governance interest. It explains also that "those charged with governance" includes those persons accountable for ensuring that the entity achieves its objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties. Those charged with governance include management only when it performs such functions.
AUS 710.02	<i>'The auditor should communicate significant matters relating to the audit, or identified as a result of the audit procedures performed, to an appropriate level of management on a timely basis.'</i>
DETERMINING WHO TO COMMUNICATE WITH	
ASA 260.9	'The auditor shall determine the relevant persons who are charged with governance and with whom audit matters of governance interest are communicated.'
GUIDANCE	The explanatory guidance in ASA 260 explains that professional judgement is required to determine those persons with whom audit matters of governance interest are communicated, taking into account the governance structure, the circumstances of the engagement, relevant legislation and the legal responsibilities of those persons.
CONSIDERING AUDIT MATTERS OF GOVERNANCE INTEREST	
ASA 260.15	'The auditor shall consider audit matters of governance interest that arise from the audit of the financial report and communicate them with those charged with governance.'
GUIDANCE	The explanatory guidance in ASA 260 explains that audit matters of governance interest include, for instance, the general approach and overall scope of the audit, the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect, the potential effect on the financial report of any material risks and exposures, audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the financial report, material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern, disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial report or the auditor's report, expected modifications to the auditor's report, and any other matters agreed upon in the terms of the audit engagement.
COMMUNICATING ON UNCORRECTED MISSTATEMENTS	
ASA 260.17	'The auditor shall inform those charged with governance of those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial report taken as a whole.'
GUIDANCE	The explanatory guidance in ASA 260 explains that the uncorrected misstatements communicated to those charged with governance need not include the misstatement below a designated amount.
COMMUNICATING ON AUDITOR INDEPENDENCE	
ASA 260.20	'When the audit is conducted under Part 2M.3 of the <i>Corporations Act 2001</i>, the auditor shall communicate directly with those charged with governance:
	<ul style="list-style-type: none"> (a) a statement as to whether the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms are independent in accordance with relevant ethical requirements and any regulatory requirements that apply to the audit engagement; and (b)(i) details of relationships that may reasonably have a bearing on auditor independence, as outlined in relevant ethical requirements relating to audit engagements; and (ii) the related safeguards that have been applied to eliminate threats to independence or reduce them to an acceptable level.'
GUIDANCE	The explanatory guidance in ASA 260 explains that communications regarding independence may also be relevant in the case of other audits, particularly those of entities that may be of significant public interest.

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TIMELINESS OF COMMUNICATION	
<p>ASA 260.22</p> <p>GUIDANCE</p> <p>AUS 710.20</p>	<p>'The auditor shall communicate audit matters of governance interest on a timely basis.'</p> <p>The explanatory guidance in ASA 260 explains that the auditor ordinarily discusses with those charged with governance the basis and timing of communications regarding significant matters. In certain cases, because of the nature of the matter, the auditor may communicate that matter sooner than previously agreed. Also explained is that the auditor's communications may be made orally or in writing and guidance is provided as to when each may be appropriate. Further, it is explained that audit matters of governance interest are ordinarily reported in writing to the governing body or audit committee and that the auditor ordinarily considers attending a meeting of the governing body or audit committee, when all members are present, to discuss such matters as appropriate.</p> <p><i>'Significant matters should be reported to management on a timely basis.'</i></p>
ENSURING ALL RELEVANT PERSONS ARE INFORMED	
<p>ASA 260.28</p> <p>GUIDANCE</p> <p>AUS 710.19</p>	<p>'If the auditor is concerned that a written report intended for those charged with governance has not been, or may not be distributed to all members of that group, the auditor shall implement an approach whereby all members are appropriately informed of the contents of the report.'</p> <p>The explanatory guidance in ASA 260 explains that ordinarily, the auditor initially discusses audit matters of governance interest with management, except where those matters relate to questions of management competence or integrity. It goes on to provide guidance relating to when management agrees to communicate a matter of governance interest with those charged with governance, the auditor may not need to repeat the communications, provided that the auditor is satisfied that such communications have effectively and appropriately been made.</p> <p><i>'If the auditor is concerned that a written report intended for a particular group within the management structure of an entity has not been, or may not be distributed to all members of that group, the auditor should implement an approach whereby all members are appropriately informed of the contents of the report.'</i></p>
OTHER MATTERS	
<p>AUS 710.31</p> <p>AUS 710.34</p>	<p>The explanatory guidance in ASA 260 explains that:</p> <ul style="list-style-type: none"> • communications between the auditor and those charged with governance cannot be regarded as a substitute for a modified auditor's report; • audit matters of governance interest previously communicated that continue to be a matter of governance interest may need to be communicated again with those charged with governance; • requirements of a professional accounting body, legislation or regulation may impose obligations of confidentiality or requirements to report to a regulatory authority certain matters. ASA 220 <i>Quality Control for Audits of Historical Financial Information</i> requires the auditor to refer to such requirements, laws and regulations before communicating with those charged with governance; • in the public sector, obligations may be imposed on the auditor to communicate on governance related matters of a regulatory and compliance nature, which are broader than the types of matters discussed in ASA 260; • written communications may be placed on public record and distributed to a wider audience than solely those persons charged with governance of the entity being audited. <p><i>The auditor should document the subject matter of oral reports to management regarding significant matters.</i></p> <p><i>The auditor should review matters raised in previous reports to management and the subsequent action taken by management</i></p>

CONFORMITY WITH INTERNATIONAL STANDARD ON AUDITING (ISA) 260

This section details differences in requirements between ASA 260 and ISA 260. It omits matters explained in the *Overview of ASAs Fact Sheet*.

- ASA 260 includes a requirement that when the audit is conducted under Part 2M.3 of the *Corporations Act 2001*, the auditor shall communicate directly with those charged with governance a statement in relation to independence as required under that Act, whereas ISA 260 does not.
- ASA 260 includes a requirement that if the auditor is concerned that a written report intended for those charged with governance has not been, or may not be distributed to all members of that group, the auditor should implement an approach whereby all members are appropriately informed of the contents of the report, whereas ISA 260 does not.
- ASA 260 contains references to the audit reporting requirements of the *Corporations Act 2001*, whereas ISA 260 does not.

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