

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE: CAS 260

- **Those charged with governance** = a person or group who has the responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process

### Objectives

The objectives of the auditor are:

- To 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
- To obtain from those charged with governance **information relevant to the audit**
- To 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
- To promote effective **two-way communication** between the auditor and those charged with governance.

### Requirements

- The auditor needs to determine the **appropriate person(s)** to communicate (i.e. The board of directors, supervisory board, trustees, committees of management)
- If the auditor communicates with a **subgroup** of those charged with governance, i.e. An audit committee, the auditor should determine whether the auditor also needs to communicate with the governing body
  - Consider how effectively the subgroup communicates relevant information with the governing body
- If **all those in charge of governance are also involved in managing** the company, communicate the matters required by this CAS to management

### Matters to be communicated with those charged with governance

- **Responsibilities of the auditor** in relation to the F/S audit, including that:
  - Auditor is responsible for forming and expressing an **opinion** on the F/S prepared by mgm't with oversight from those in charge of governance; and
  - Audit of the F/S **does not relieve management** or those charged with governance of their responsibilities
- **An overview on the planned scope and timing** of the audit
  - In doing this, care is required as not to compromise the effectiveness of the audit by making procedures too predictable (especially if those charged with governance also have management responsibilities)
  - Matters communicated **may** include:
    - How the auditor proposes to address the significant risks of material misstatement
    - The auditor's approach to internal control relevant to the audit
    - The application of the concept of materiality in the context of an audit
    - The extent to which the auditor will use the work of internal audit
- **Significant Findings** from the Audit
  - The **auditor's views** about the entity's accounting practices, including accounting policies, accounting estimates and F/S disclosures; also why the auditor considers a

significant accounting practice, that is allowed under GAAP not to be most appropriate to the particular situation

- **Significant difficulties**, if any, encountered during the audit
- **Significant matters**, if any, arising from the audit that were discussed with management
- **Written representations** the auditor is requesting
- **Other matters** that are significant to the oversight of the financial reporting process (i.e. misstatements of facts/inconsistencies in information accompanying the audited F/S)
- **Auditor Independence**
  - For **listed companies** communicate the following to those charged with governance:
    - A statement that the engagement team and the firm has complied with relevant **ethical requirements regarding independence**
    - All relationships and other matters between the firm and the entity, in the auditor's professional judgment, may reasonably be thought to bear on **independence** including the fees charged for the audit/non-audit services
    - The related **safeguards** that have been applied to eliminate identified threats to independence or reduce them to an acceptable level
      - Threats to independence= self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats;
    - This must be communicated **in writing**

### The Communication Process

- Communicate with those charged with governance the **form, timing and expected general content** of communications
- Communicate in **writing** with those charged with governance regarding significant findings from the audit if, in the auditor's professional judgment, **oral communication would not be adequate**
- communicate with those charged with governance on a **timely basis**
- Evaluate whether the **two-way communication** between the auditor and those charged with governance has been adequate
  - If not, the auditor evaluate the effect on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and should take appropriate action

### Documentation

- Communication required by this CAS is to be documented (even if communicated orally)
- i.e. document the discussions by keeping minutes