

SA- 260 (Revised) - Communication with Those Charged with Governance

What do you mean by Those Charged with Governance?

According to SA 260 *Those charged with governance* refers to person(s) or organisation(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 those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector undertakings or an owner-manager. In some cases, those charged with governance are responsible for approving the entity's financial statements (in other cases management has this responsibility). On the other hand the word management refers to person(s) with executive responsibility for the conduct of the entity's operations.

What is Objective of auditor to communicate with those charged with governance?

According to SA-260 -The objectives of the auditor are to:

- (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;
- (b) Obtain information relevant to the audit from those charged with governance;
- (c) Provide timely significant observations arising from the audit relevant to oversee the financial reporting process for those charged with governance.
- (d) Promote effective two-way communication between the auditor and those charged with governance.

What matters are required to be communicated?

1. The Auditor's Responsibilities in Relation to the Financial Statement Audit

The auditor shall communicate that he 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 the audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

2.Planned Scope and Timing of the Audit

The auditor shall communicate an overview of the planned scope and timing of the audit.

3. Significant Findings from the Audit

- a)The auditor shall communicate his views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- (b) Significant difficulties, if any, encountered during the audit;
- (c) Unless all of those charged with governance are involved in managing the entity:
 - (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 communicated to management as required by SA 315 or SA 330;
 - (ii) Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management; and
 - (iii) Written representations the auditor is requesting; and
- (d) Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

In Case of Listed entities what are additional communication auditor is required to do?

According to SA260 In the case of listed entities, the auditor shall communicate with those charged with governance that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and 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 nonaudit 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 The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

What other consideration are required under this SA260

1. The auditor shall communicate in writing with those charged with governance when, in the auditor's professional judgment, oral communication would not be adequate. Where matters required by this SA 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, the auditor shall retain a copy of the communication as part of the audit documentation.
2. The auditor shall communicate with those charged with governance on a timely basis.
3. 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. Inadequacy may lead auditor to suspicion about existence of misstatement.

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