



International Federation of Accountants

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Agenda Item

5

Committee: IAASB
Meeting Location: Hong Kong
Meeting Date: March 6-10, 2006

Communication with Those Charged with Governance

Objectives of Agenda Item

1. To review changes made to the “old” format draft of revised ISA 260, “Communication with Those Charged with Governance” (including conforming amendments to ISAs 570 “Going Concern” and 300 “Planning an Audit of Financial Statements”), and approve it as the base document for conversion to the “clarified” format; and
2. To review and approve the “clarified” format for issue as an exposure draft.

Task Force

- Ian McPhee (Chair), Member of IAASB and the Australian Auditing and Assurance Standards Board (AUASB), supported by Richard Mifsud (IAASB Technical Advisor) and Margaret Salter (AUASB staff)
- Wolf Böhm, IAASB Technical Advisor
- Kevin Neville, Member AUASB
- Scott Reed, Transnational Auditors’ Committee Nominee
- Tove Myklebust, INTOSAI Nominee
- Philomena Leung, Institute of Internal Auditors Nominee (correspondence member)

Background

The IAASB issued an Exposure Draft of revised ISA 260 in March 2005. A total of thirty-nine comment letters were received, with respondents being generally supportive. Significant issues raised by respondents were discussed at the IAASB’s December 2005 (Cape Town) meeting¹.

Members of the task force met in Cape Town after the IAASB discussion, and held a subsequent conference call in January 2006.

Issues

Old format

The initial focus for this agenda item at the March meeting will be to finalize the old format draft, including consideration of the significant issues discussed in Agenda Item 5-A. Any changes made to the old format draft before approval will also be reflected in the clarified draft.

The marked-up draft (Agenda Item 5-C) will be used to lead the discussion.

1 Two comment letters were received too late for inclusion in the December meeting papers. They have been reviewed by the Task Force for major issues.

Clarified format

Mapping: Conversion of the old format draft into clarified format has been relatively straightforward because, to an extent, the old format document was drafted with the clarified format in mind, e.g.:

- (a) Present tense statements that were not proposed to be elevated to Requirement status were modified in the old format to make their status clear (e.g. by addition of “ordinarily”); and
- (b) Apart from separating the Requirements from the Application Material, very few structural changes or additional wording has been necessary.

Because there are relatively few changes, the Task Force thought it would be helpful to present a mark-up of the substantive changes from old format to clarified format (Agenda Item 5-E), as well as regular mapping documents of the kind presented for ISAs 315, 330 etc.

Objective: The auditor’s responsibilities with respect to the Objective are:

The professional accountant must achieve the objective stated at the beginning of each Standard that is relevant in the circumstances of the engagement. The professional accountant achieves the objective by complying with the requirements of the Standard, and by performing other procedures that, in the professional accountant’s professional judgment, are necessary in the circumstances. [Oct 2005 Clarity ED]

The Objective in paragraph 5 of the attached clarified draft uses the overarching black letter paragraph from the old format draft, but adds to it a reference to the two-way nature of communication, which was considered particularly important by many respondents to the Exposure Draft of this document.

Another alternative considered by the Task Force was for the Objective to reflect the purpose of the subject matter of the ISA (i.e. the purpose of communication with those charged with governance), as stated in paragraph 7 of the clarified draft. However, if paragraph 7 were used as the basis for the Objective, it would likely need to be re-worked to be more precise.

A suggestion for using paragraph 7 as a basis for the Objective that was considered by the Task Force is:

~~The principal purposes of communication with those charged with governance are to:~~ In relation to this ISA, the objective of the auditor is to:

- (a) Establish a mutual understanding of (i) the scope and timing of the audit, (ii) the respective responsibilities of the auditor, those charged with governance and management in relation to the financial statement audit, and (iii) the form, timing and expected content of communications;
- (b) ~~Provide~~ Communicate with those charged with governance ~~with timely observations~~ (i) matters arising from the audit that are ~~relevant to their responsibilities;~~ in the auditor’s professional judgment, significant to the oversight of the financial reporting process, and (ii) Supplementary matters, if any, that in the auditor’s professional judgment are of such significance that they should be communicated; and
- (c) ~~Share other information that will (i) assist the auditor in obtaining the audit evidence required to form an opinion on the financial statements, and (ii) assist those charged with governance to fulfill their responsibilities.~~ Make those charged with governance aware of the auditor’s expectation that they will communicate with the auditor matters they consider relevant to the audit.

The Task Force was not in favor of this kind of Objective as it tends to become a summary of the Requirements.

Prior to the March IAASB meeting, the Clarity Task Force is expected to consider how best to express Objectives from the broader perspective of consistency amongst ISAs, and may have recommendations that affect how the Objective of this ISA should be drafted.

Material Presented

Agenda Item 5-A (Pages 353 to 358)	Significant Issues – old format
Agenda Item 5-B (Pages 359 to 380)	Revised old format draft – Clean
Agenda Item 5-C (Pages 381 to 408)	Revised old format draft – Mark-up
Agenda Item 5-D (Pages 409 to 428)	Clarity Exposure Draft – Clean
Agenda Item 5-E (Pages 429 to 450)	Clarity Exposure Draft – Mark-up
Agenda Item 5-F (Pages 451 to 466)	Mapping documents

Action Requested

The IAASB is asked to:

1. Approve the “old” format revised ISA 260 (including conforming amendments to ISAs 570 and 300), amended as necessary, as the base document for conversion to the “clarified” format; and
2. Approve the “clarified” format, amended as necessary, to issue as an exposure draft.

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