

EXPOSURE DRAFT

ED 01/15
(April 2015)

Proposed Auditing Standard ASA 260 *Communication With Those Charged With Governance*

Issued for Comment by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later than 30 June 2015. Comments should be addressed to:

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PREFACE

Reasons for Issuing ED 01/15

The AUASB issues exposure draft ED 01/15 of proposed Auditing Standard ASA 260 *Communication With Those Charged With Governance* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Proposals

This proposed Auditing Standard represents the Australian equivalent of revised ISA 260 *Communication With Those Charged With Governance* (January 2015) and will replace the current ASA 260 issued by the AUASB in October 2009 (as amended).

This proposed Auditing Standard contains differences from the revised ISA 260, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods ending on or after 15 December 2016.

Main changes from existing ASA 260 *Communication With Those Charged With Governance* (October 2009, as amended)

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, ASA 260 *Communication With Those Charged With Governance* (October 2009, as amended), are included in the Tables of Differences provided as an attachment to this Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of ASA 260 *Communication With Those Charged With Governance* by no later than 30 June 2015. The AUASB is seeking comments from respondents on the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
3. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

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4. Is the removal of (only) “Aus” paragraph references to the *Corporations Act 2001*—currently included within the requirements and application and other explanatory material—supported?

If removal of existing references is not supported, respondents are asked to indicate their preference for locating the re-instated material within the standard:

- In the requirements and application and other explanatory material (as applicable) of the proposed standard; or
- By inclusion of a cross-referenced listing in an appendix to the standard?

5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 260 *Communication With Those Charged With Governance* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 260 *Communication With Those Charged With Governance* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISA 260 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISA 260.

AUDITING STANDARD ASA 260

Communication With Those Charged With Governance

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibility to communicate with those charged with governance in an audit of a financial report. Although this Auditing Standard applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities. This Auditing Standard does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.
2. This Auditing Standard is written in the context of an audit of the financial report, but may also be applicable, as necessary in the circumstances, to audits of other historical financial information when those charged with governance have a responsibility to oversee the preparation of the other historical financial information.
3. Recognising the importance of effective two-way communication in an audit of a financial report, this Auditing Standard provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them. Additional matters to be communicated, which complement the requirements of this Auditing Standard, are identified in other Australian Auditing Standards (see Appendix 1 of this Auditing Standard). In addition, ASA 265¹ establishes specific requirements regarding the communication of significant deficiencies in internal control the auditor has identified during the audit to those charged with governance. Further matters, not required by this or other Australian Auditing Standards, may be required to be communicated by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement. Nothing in this Auditing Standard precludes the auditor from communicating any other matters to those charged with governance. (Ref: Para. A33–A36)

¹ See ASA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

The Role of Communication

4. This Auditing Standard focuses primarily on communications from the auditor to those charged with governance. Nevertheless, effective two-way communication is important in assisting:
 - (a) The auditor and those charged with governance in understanding matters related to the audit in context, and in developing a constructive working relationship. This relationship is developed while maintaining the auditor's independence and objectivity;
 - (b) The auditor in obtaining from those charged with governance information relevant to the audit. For example, those charged with governance may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events; and
 - (c) Those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the financial report.
5. Although the auditor is responsible for communicating matters required by this Auditing Standard, management also has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of this responsibility. Similarly, communication by management with those charged with governance of matters that the auditor is required to communicate does not relieve the auditor of the responsibility to also communicate them. Communication of these matters by management may, however, affect the form or timing of the auditor's communication with those charged with governance.
6. Clear communication of specific matters required to be communicated by Australian Auditing Standards is an integral part of every audit. Australian Auditing Standards do not, however, require the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance.
7. Law or regulation may restrict the auditor's communication of certain matters with those charged with governance. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the auditor may consider obtaining legal advice.

Effective Date

8. [Deleted by the AUASB. Refer Aus 0.3]

Objectives

9. The objectives of the auditor are:
 - (a) To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial report audit, and an overview of the planned scope and timing of the audit;
 - (b) To obtain from those charged with governance information relevant to the audit;
 - (c) 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; and

- (d) To promote effective two-way communication between the auditor and those charged with governance.

Definitions

- 10. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
 - (a) Those charged with governance – The 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 in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager. For discussion of the diversity of governance structures, see paragraphs A1–A8 of this Auditing Standard.
 - (b) Management – The person(s) with executive responsibility for the conduct of the entity’s operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.

Requirements

Those Charged with Governance

- 11. The auditor shall determine the appropriate person(s) within the entity’s governance structure with whom to communicate. (Ref: Para. A1–A4)

Communication with a Subgroup of Those Charged with Governance

- 12. If the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor shall determine whether the auditor also needs to communicate with the governing body. (Ref: Para. A5–A7)

When All of Those Charged with Governance Are Involved in Managing the Entity

- 13. In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this Auditing Standard are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. These matters are noted in paragraph 16(c) of this Auditing Standard. The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity. (Ref: Para. A8)

Matters to Be Communicated

The Auditor’s Responsibilities in Relation to the Financial Report Audit

- 14. The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial report audit, including that:
 - (a) The auditor is responsible for forming and expressing an opinion on the financial report that has been prepared by management with the oversight of those charged with governance; and

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- (b) The audit of the financial report does not relieve management or those charged with governance of their responsibilities. (Ref: Para. A9–A10)

Planned Scope and Timing of the Audit

- 15. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor. (Ref: Para. A11–A16)

Significant Findings from the Audit

- 16. The auditor shall communicate with those charged with governance: (Ref: Para. A17–A18)
 - (a) The auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial reporting disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity; (Ref: Para. A19–A20)
 - (b) Significant difficulties, if any, encountered during the audit; (Ref: Para. A21)
 - (c) Unless all of those charged with governance are involved in managing the entity:
 - (i) Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and (Ref: Para. A22)
 - (ii) Written representations the auditor is requesting;
 - (d) Circumstances that affect the form and content of the auditor’s report, if any; and (Ref: Para. A23–A25)
 - (e) Any other significant matters arising during the audit that, in the auditor’s professional judgement, are relevant to the oversight of the financial reporting process. (Ref: Para. A26–A28)

Auditor Independence

- 17. In the case of listed entities, the auditor shall communicate with those charged with governance:
 - (a) 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 requirements regarding independence; and
 - (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor’s professional judgement, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial report for audit and non-audit 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
 - (ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. (Ref: Para. A29–A32)

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The Communication Process

Establishing the Communication Process

18. The auditor shall communicate with those charged with those charged with governance the form, timing and expected general content of communications. (Ref: Para. A37–A45)

Forms of Communication

19. The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit if, in the auditor’s professional judgement, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit. (Ref: Para. A46–A48)
20. The auditor shall communicate in writing with those charged with governance regarding auditor independence when required by paragraph 17 of this Auditing Standard.

Timing of Communications

21. The auditor shall communicate with those charged with governance on a timely basis. (Ref: Para. A49–A50)

Adequacy of the Communication Process

22. 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. If it has not, the auditor shall 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 shall take appropriate action. (Ref: Para. A51–A53)

Documentation

23. Where matters required by this Auditing Standard to be communicated are communicated orally, the auditor shall include them in the audit documentation, 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 (Ref: Para. A54)

* * *

² See ASA 230 *Audit Documentation*, paragraphs 8–11, and A6.

Application and Other Explanatory Material

Those Charged with Governance (Ref: Para. 11)

- A1. Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. For example:
- In some jurisdictions, a supervisory (wholly or mainly non-executive) board exists that is legally separate from an executive (management) board (a “two-tier board” structure). In other jurisdictions, both the supervisory and executive functions are the legal responsibility of a single, or unitary, board (a “one-tier board” structure).
 - In some entities, those charged with governance hold positions that are an integral part of the entity’s legal structure, for example, company directors. In others, for example, some public sector entities, a body that is not part of the entity is charged with governance.
 - In some cases, some or all of those charged with governance are involved in managing the entity. In others, those charged with governance and management comprise different persons.
 - In some cases, those charged with governance are responsible for approving³ the entity’s financial report (in other cases management has this responsibility).
- A2. In most entities, governance is the collective responsibility of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of management, a council of governors, trustees, or equivalent persons. In some smaller entities, however, one person may be charged with governance, for example, the owner-manager where there are no other owners, or a sole trustee. When governance is a collective responsibility, a subgroup such as an audit committee or even an individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities. Alternatively, a subgroup or individual may have specific, legally identified responsibilities that differ from those of the governing body.
- A3. Such diversity means that it is not possible for this Auditing Standard to specify for all audits the person(s) with whom the auditor is to communicate particular matters. Also, in some cases, the appropriate person(s) with whom to communicate may not be clearly identifiable from the applicable legal framework or other engagement circumstances, for example, entities where the governance structure is not formally defined, such as some owner-managed entities, some not-for-profit organisations, and some public sector entities. In such cases, the auditor may need to discuss and agree with the engaging party the relevant person(s) with whom to communicate. In deciding with whom to communicate, the auditor’s understanding of an entity’s governance structure and processes obtained in accordance with ASA 315⁴ is relevant. The appropriate person(s) with whom to communicate may vary depending on the matter to be communicated.
- A4. ASA 600 includes specific matters to be communicated by group auditors with those charged with governance.⁵ When the entity is a component of a group, the appropriate person(s) with whom the component auditor communicates depends on the engagement circumstances and the matter to be communicated. In some cases, a number of components may be conducting the same businesses within the same system of internal control and using the same accounting practices. Where those charged with governance of those components are the same (e.g.,

³ As described in paragraph A63 of ASA 700 *Forming an Opinion and Reporting on a Financial Report*, having responsibility for approving in this context means having the authority to conclude that all the statements that comprise the financial report, including the related notes, have been prepared.

⁴ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

⁵ See ASA 600 *Special Considerations—Audits of Group Financial Reports (Including the Work of Component Auditors)*, paragraph 49.

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common board of directors), duplication may be avoided by dealing with these components concurrently for the purpose of communication.

Communication with a Subgroup of Those Charged with Governance (Ref: Para. 12)

- A5. When considering communicating with a subgroup of those charged with governance, the auditor may take into account such matters as:
- The respective responsibilities of the subgroup and the governing body.
 - The nature of the matter to be communicated.
 - Relevant legal or regulatory requirements.
 - Whether the subgroup has the authority to take action in relation to the information communicated, and can provide further information and explanations the auditor may need.
- A6. When deciding whether there is also a need to communicate information, in full or in summary form, with the governing body, the auditor may be influenced by the auditor's assessment of how effectively and appropriately the subgroup communicates relevant information with the governing body. The auditor may make explicit in agreeing the terms of engagement that, unless prohibited by law or regulation, the auditor retains the right to communicate directly with the governing body.
- A7. Audit committees (or similar subgroups with different names) exist in many jurisdictions. Although their specific authority and functions may differ, communication with the audit committee, where one exists, has become a key element in the auditor's communication with those charged with governance. Good governance principles suggest that:
- The auditor will be invited to regularly attend meetings of the audit committee.
 - The chair of the audit committee and, when relevant, the other members of the audit committee, will liaise with the auditor periodically.
 - The audit committee will meet the auditor without management present at least annually.

When All of Those Charged with Governance Are Involved in Managing the Entity (Ref: Para. 13)

- A8. In some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognise this position. In such cases, communication with person(s) with management responsibilities may not adequately inform all of those with whom the auditor would otherwise communicate in their governance capacity. For example, in a company where all directors are involved in managing the entity, some of those directors (e.g., one responsible for marketing) may be unaware of significant matters discussed with another director (e.g., one responsible for the preparation of the financial report).

Matters to Be Communicated

The Auditor's Responsibilities in Relation to the Financial Report Audit (Ref: Para. 14)

- A9. The auditor's responsibilities in relation to the financial report audit are often included in the engagement letter or other suitable form of written agreement that records the agreed terms of the engagement.⁶ Law, regulation or the governance structure of the entity may require those charged with governance to agree the terms of the engagement with the auditor. When this is

⁶ See ASA 210 *Agreeing the Terms of Audit Engagements*, paragraph 10.

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not the case, providing those charged with governance with a copy of that engagement letter or other suitable form of written agreement may be an appropriate way to communicate with them regarding such matters as:

- The auditor's responsibility for performing the audit in accordance with Australian Auditing Standards, which is directed towards the expression of an opinion on the financial report. The matters that Australian Auditing Standards require to be communicated, therefore, include significant matters arising during the audit of the financial report that are relevant to those charged with governance in overseeing the financial reporting process.
- The fact that Australian Auditing Standards do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.
- When ASA 701⁷ applies, the auditor's responsibilities to determine and communicate key audit matters in the auditor's report.
- When applicable, the auditor's responsibility for communicating particular matters required by law or regulation, by agreement with the entity or by additional requirements applicable to the engagement.

A10. Law or regulation, an agreement with the entity or additional requirements applicable to the engagement may provide for broader communication with those charged with governance. For example, (a) an agreement with the entity may provide for particular matters to be communicated when they arise from services provided by a firm or network firm other than the financial report audit; or (b) the mandate of a public sector auditor may provide for matters to be communicated that come to the auditor's attention as a result of other work, such as performance audits.

Planned Scope and Timing of the Audit (Ref: Para. 15)

A11. Communication regarding the planned scope and timing of the audit may:

- (a) Assist those charged with governance to understand better the consequences of the auditor's work, to discuss issues of risk and the concept of materiality with the auditor, and to identify any areas in which they may request the auditor to undertake additional procedures; and
- (b) Assist the auditor to understand better the entity and its environment.

A12. Communicating significant risks identified by the auditor helps those charged with governance understand those matters and why they require special audit consideration. The communication about significant risks may assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process.

A13. Matters communicated may include:

- How the auditor plans to address the significant risks of material misstatement, whether due to fraud or error.
- How the auditor plans to address areas of higher assessed 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.⁸

⁷ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

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- The nature and extent of specialised skill or knowledge needed to perform the planned audit procedures or evaluate the audit results, including the use of an auditor's expert.⁹
 - When ASA 701 applies, the auditor's preliminary views about matters that may be areas of significant auditor attention in the audit and therefore may be key audit matters.
- A14. Other planning matters that it may be appropriate to discuss with those charged with governance include:
- [Deleted by the AUASB. Refer Aus A14.1]
- ~~[Where the entity has an internal audit function, how the external auditor and internal auditors can work together in a constructive and complementary manner, including any planned use of the work of the internal audit function, and the nature and extent of any planned use of internal auditors to provide direct assistance.]~~
- Aus A14.1 Where the entity has an internal audit function, how the external auditor and internal auditors can work together in a constructive and complementary manner, including any planned use of the work of the internal audit function.¹⁰
- The views of those charged with governance of:
 - The appropriate person(s) in the entity's governance structure with whom to communicate.
 - The allocation of responsibilities between those charged with governance and management.
 - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
 - Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken.
 - Significant communications with regulators.
 - Other matters those charged with governance consider may influence the audit of the financial report.
 - The attitudes, awareness, and actions of those charged with governance concerning (a) the entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control, and (b) the detection or possibility of fraud.
 - The actions of those charged with governance in response to developments in accounting standards, corporate governance practices, exchange listing rules, and related matters.
 - The responses of those charged with governance to previous communications with the auditor.
- A15. While communication with those charged with governance may assist the auditor to plan the scope and timing of the audit, it does not change the auditor's sole responsibility to establish

⁸ See ASA 320 *Materiality in Planning and Performing an Audit*.

⁹ See ASA 620 *Using the Work of an Auditor's Expert*.

¹⁰ See ASA 610 *Using the Work of Internal Auditors*, paragraph 20.

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the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.

- A16. Care is necessary when communicating with those charged with governance about the planned scope and timing of the audit so as not to compromise the effectiveness of the audit, particularly where some or all of those charged with governance are involved in managing the entity. For example, communicating the nature and timing of detailed audit procedures may reduce the effectiveness of those procedures by making them too predictable.

Significant Findings from the Audit (Ref: Para. 16)

- A17. The communication of findings from the audit may include requesting further information from those charged with governance in order to complete the audit evidence obtained. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.
- A18. When ASA 701 applies, the communications with those charged with governance required by paragraph 16, as well as the communication about the significant risks identified by the auditor required by paragraph 15, are particularly relevant to the auditor's determination of matters that required significant auditor attention and which therefore may be key audit matters.¹¹

Significant Qualitative Aspects of Accounting Practices (Ref: Para. 16(a))

- A19. Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgements about accounting policies and financial report disclosures, for example, in relation to the use of key assumptions in the development of accounting estimates for which there is significant measurement uncertainty. In addition, law, regulation or financial reporting frameworks may require disclosure of a summary of significant accounting policies or make reference to "critical accounting estimates" or "critical accounting policies and practices" to identify and provide additional information to users about the most difficult, subjective or complex judgements made by management in preparing the financial report.
- A20. As a result, the auditor's views on the subjective aspects of the financial report may be particularly relevant to those charged with governance in discharging their responsibilities for oversight of the financial reporting process. For example, in relation to the matters described in paragraph A19, those charged with governance may be interested in the auditor's evaluation of the adequacy of disclosures of the estimation uncertainty relating to accounting estimates that give rise to significant risks. Open and constructive communication about significant qualitative aspects of the entity's accounting practices also may include comment on the acceptability of significant accounting practices. Appendix 2 identifies matters that may be included in this communication.

Significant Difficulties Encountered during the Audit (Ref: Para. 16(b))

- A21. Significant difficulties encountered during the audit may include such matters as:
- Significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information necessary for the auditor to perform the auditor's procedures.
 - An unreasonably brief time within which to complete the audit.
 - Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
 - The unavailability of expected information.

¹¹ See ASA 701, paragraphs 9–10.

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- Restrictions imposed on the auditor by management.
- Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion.¹²

Significant Matters Discussed, or Subject to Correspondence with Management (Ref: Para. 16(c)(i))

A22. Significant matters discussed, or subject to correspondence with management may include such matters as:

- Significant events or transactions that occurred during the year.
- Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement.
- Concerns about management's consultations with other accountants on accounting or auditing matters.
- Discussions or correspondence in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services.
- Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information.

Circumstances that Affect the Form and Content of the Auditor's Report (Ref: Para 16(d))

A23. ASA 210 requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate.¹³ The agreed terms of the audit engagement are required to be recorded in an audit engagement letter or other suitable form of written agreement and include, among other things, reference to the expected form and content of the auditor's report.¹⁴ As explained in paragraph A9, if the terms of engagement are not agreed with those charged with governance, the auditor may provide those charged with governance with a copy of the engagement letter to communicate about matters relevant to the audit. The communication required by paragraph 16(d) is intended to inform those charged with governance about circumstances in which the auditor's report may differ from its expected form and content or may include additional information about the audit that was performed.

A24. Circumstances in which the auditor is required or may otherwise consider it necessary to include additional information in the auditor's report in accordance with the Australian Auditing Standards, and for which communication with those charged with governance is required, include when:

- The auditor expects to modify the opinion in the auditor's report in accordance with ASA 705.¹⁵
- A material uncertainty related to going concern is reported in accordance with ASA 570.¹⁶
- Key audit matters are communicated in accordance with ASA 701.¹⁷

¹² See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

¹³ See ASA 210, paragraph 9.

¹⁴ See ASA 210, paragraph 10.

¹⁵ See ASA 705, paragraph 30.

¹⁶ See ASA 570 *Going Concern*, paragraph 25(d).

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- The auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matters paragraph in accordance with ASA 706¹⁸ or is required to do so by other Australian Auditing Standards.

In such circumstances, the auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate a discussion of how such matters will be addressed in the auditor's report.

- A25. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report in accordance with ASA 700, the auditor is required to discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat.¹⁹ The auditor also may communicate with those charged with governance in circumstances when the auditor elects not to include the description of the auditor's responsibilities in the body of the auditor's report as permitted by ASA 700.²⁰

Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(e))

- A26. ASA 300²¹ notes that, as a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. The auditor may communicate with those charged with governance about such matters, for example, as an update to initial discussions about the planned scope and timing of the audit.
- A27. Other significant matters arising from the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of fact or material inconsistencies in information accompanying the audited financial report that have been corrected.
- A28. To the extent not already addressed by the requirements in paragraphs 16(a)–(d) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality control reviewer, if one has been appointed, in accordance with ASA 220.²²

Auditor Independence (Ref: Para. 17)

- A29. The auditor is required to comply with relevant ethical requirements, including those pertaining to independence, relating to financial report audit engagements.²³
- A30. The relationships and other matters, and safeguards to be communicated, vary with the circumstances of the engagement, but generally address:
- (a) Threats to independence, which may be categorised as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and
 - (b) Safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.
- A31. [Deleted by the AUASB. Refer Aus A31.1]

¹⁷ See ASA 701, paragraph 17.

¹⁸ See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 12.

¹⁹ See ASA 700, paragraphs 45 and A58.

²⁰ See ASA 700, paragraph 40.

²¹ See ASA 300, *Planning an Audit of a Financial Report*, paragraph A13.

²² See paragraphs 19–22 and A23–A32 of ASA 220, *Quality Control for an Audit of a Financial Report*.

²³ See ASA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* paragraph 14.

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~~[Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified. For example, the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) requires the auditor to communicate with those charged with governance in writing about any breach and the action the firm has taken or proposes to take.²⁴]~~

Aus A31.1 Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified.*

A32. The communication requirements relating to auditor independence that apply in the case of listed entities may also be appropriate in the case of some other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and superannuation funds), and other entities such as charities. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial report audit.

Supplementary Matters (Ref: Para. 3)

A33. The oversight of management by those charged with governance includes ensuring that the entity designs, implements and maintains appropriate internal control with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

A34. The auditor may become aware of supplementary matters that do not necessarily relate to the oversight of the financial reporting process but which are, nevertheless, likely to be significant to the responsibilities of those charged with governance in overseeing the strategic direction of the entity or the entity's obligations related to accountability. Such matters may include, for example, significant issues regarding governance structures or processes, and significant decisions or actions by senior management that lack appropriate authorisation.

A35. In determining whether to communicate supplementary matters with those charged with governance, the auditor may discuss matters of this kind of which the auditor has become aware with the appropriate level of management, unless it is inappropriate to do so in the circumstances.

A36. If a supplementary matter is communicated, it may be appropriate for the auditor to make those charged with governance aware that:

- (a) Identification and communication of such matters is incidental to the purpose of the audit, which is to form an opinion on the financial report;
- (b) No procedures were carried out with respect to the matter other than any that were necessary to form an opinion on the financial report; and
- (c) No procedures were carried out to determine whether other such matters exist.

²⁴ [Deleted by the AUASB. Refer footnote *]

* See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

The Communication Process

Establishing the Communication Process (Ref: Para. 18)

- A37. Clear communication of the auditor's responsibilities, the planned scope and timing of the audit, and the expected general content of communications helps establish the basis for effective two-way communication.
- A38. Matters that may also contribute to effective two-way communication include discussion of:
- The purpose of communications. When the purpose is clear, the auditor and those charged with governance are better placed to have a mutual understanding of relevant issues and the expected actions arising from the communication process.
 - The form in which communications will be made.
 - The person(s) in the engagement team and among those charged with governance who will communicate regarding particular matters.
 - The auditor's expectation that communication will be two-way, and that those charged with governance will communicate with the auditor matters they consider relevant to the audit, for example, strategic decisions that may significantly affect the nature, timing and extent of audit procedures, the suspicion or the detection of fraud, and concerns with the integrity or competence of senior management.
 - The process for taking action and reporting back on matters communicated by the auditor.
 - The process for taking action and reporting back on matters communicated by those charged with governance.
- A39. The communication process will vary with the circumstances, including the size and governance structure of the entity, how those charged with governance operate, and the auditor's view of the significance of matters to be communicated. Difficulty in establishing effective two-way communication may indicate that the communication between the auditor and those charged with governance is not adequate for the purpose of the audit (see paragraph A52).

Considerations Specific to Smaller Entities

- A40. In the case of audits of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of listed or larger entities.

Communication with Management

- A41. Many matters may be discussed with management in the ordinary course of an audit, including matters required by this Auditing Standard to be communicated with those charged with governance. Such discussions recognise management's executive responsibility for the conduct of the entity's operations and, in particular, management's responsibility for the preparation of the financial report.
- A42. Before communicating matters with those charged with governance, the auditor may discuss them with management, unless that is inappropriate. For example, it may not be appropriate to discuss questions of management's competence or integrity with management. In addition to recognising management's executive responsibility, these initial discussions may clarify facts and issues, and give management an opportunity to provide further information and explanations. Similarly, when the entity has an internal audit function, the auditor may discuss matters with the internal auditor before communicating with those charged with governance.

Communication with Third Parties

- A43. Those charged with governance may be required by law or regulation, or may wish, to provide third parties, for example, bankers or certain regulatory authorities, with copies of a written communication from the auditor. In some cases, disclosure to third parties may be illegal or otherwise inappropriate. When a written communication prepared for those charged with governance is provided to third parties, it may be important in the circumstances that the third parties be informed that the communication was not prepared with them in mind, for example, by stating in written communications with those charged with governance:
- (a) That the communication has been prepared for the sole use of those charged with governance and, where applicable, the group management and the group auditor, and should not be relied upon by third parties;
 - (b) That no responsibility is assumed by the auditor to third parties; and
 - (c) Any restrictions on disclosure or distribution to third parties.
- A44. In some jurisdictions the auditor may be required by law or regulation to, for example:
- Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some countries the auditor has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action;
 - Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies, or other bodies such as a central authority in the case of some public sector entities; or
 - Make reports prepared for those charged with governance publicly available.
- A45. Unless required by law or regulation to provide a third party with a copy of the auditor's written communications with those charged with governance, the auditor may need the prior consent of those charged with governance before doing so.

Forms of Communication (Ref: Para. 19)

- A46. Effective communication may involve structured presentations and written reports as well as less structured communications, including discussions. The auditor may communicate matters other than those identified in paragraphs 19–20 either orally or in writing. Written communications may include an engagement letter that is provided to those charged with governance.
- A47. In addition to the significance of a particular matter, the form of communication (e.g., whether to communicate orally or in writing, the extent of detail or summarisation in the communication, and whether to communicate in a structured or unstructured manner) may be affected by such factors as:
- Whether a discussion of the matter will be included in the auditor's report. For example, when key audit matters are communicated in the auditor's report, the auditor may consider it necessary to communicate in writing about the matters determined to be key audit matters.
 - Whether the matter has been satisfactorily resolved.
 - Whether management has previously communicated the matter.
 - The size, operating structure, control environment, and legal structure of the entity.

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- In the case of an audit of special purpose financial reports, whether the auditor also audits the entity's general purpose financial reports.
- Legal requirements. In some jurisdictions, a written communication with those charged with governance is required in a prescribed form by law.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The amount of ongoing contact and dialogue the auditor has with those charged with governance.
- Whether there have been significant changes in the membership of a governing body.

A48. When a significant matter is discussed with an individual member of those charged with governance, for example, the chair of an audit committee, it may be appropriate for the auditor to summarise the matter in later communications so that all of those charged with governance have full and balanced information.

Timing of Communications (Ref: Para. 21)

A49. Timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by those charged with governance. For example:

- Communications regarding planning matters may often be made early in the audit engagement and, for an initial engagement, may be made as part of agreeing the terms of the engagement.
- It may be appropriate to communicate a significant difficulty encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if it is likely to lead to a modified opinion. Similarly, the auditor may communicate orally to those charged with governance as soon as practicable significant deficiencies in internal control that the auditor has identified, prior to communicating these in writing as required by ASA 265.²⁵
- When ASA 701 applies, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit (see paragraph A13), and the auditor also may have more frequent communications to further discuss such matters when communicating about significant audit findings.
- Communications regarding independence may be appropriate whenever significant judgements are made about threats to independence and related safeguards, for example, when accepting an engagement to provide non-audit services, and at a concluding discussion.
- Communications regarding findings from the audit, including the auditor's views about the qualitative aspects of the entity's accounting practices, may also be made as part of the concluding discussion.
- When auditing both general purpose and special purpose financial reports, it may be appropriate to co-ordinate the timing of communications.

²⁵ See ASA 265, paragraphs 9 and A14.

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A50. Other factors that may be relevant to the timing of communications include:

- The size, operating structure, control environment, and legal structure of the entity being audited.
- Any legal obligation to communicate certain matters within a specified timeframe.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The time at which the auditor identifies certain matters, for example, the auditor may not identify a particular matter (e.g., noncompliance with a law) in time for preventive action to be taken, but communication of the matter may enable remedial action to be taken.

Adequacy of the Communication Process (Ref: Para. 22)

A51. The auditor need not design specific procedures to support the evaluation of the two-way communication between the auditor and those charged with governance; rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. Such observations may include:

- The appropriateness and timeliness of actions taken by those charged with governance in response to matters raised by the auditor. Where significant matters raised in previous communications have not been dealt with effectively, it may be appropriate for the auditor to enquire as to why appropriate action has not been taken, and to consider raising the point again. This avoids the risk of giving an impression that the auditor is satisfied that the matter has been adequately addressed or is no longer significant.
- The apparent openness of those charged with governance in their communications with the auditor.
- The willingness and capacity of those charged with governance to meet with the auditor without management present.
- The apparent ability of those charged with governance to fully comprehend matters raised by the auditor, for example, the extent to which those charged with governance probe issues, and question recommendations made to them.
- Difficulty in establishing with those charged with governance a mutual understanding of the form, timing and expected general content of communications.
- Where all or some of those charged with governance are involved in managing the entity, their apparent awareness of how matters discussed with the auditor affect their broader governance responsibilities, as well as their management responsibilities.
- Whether the two-way communication between the auditor and those charged with governance meets applicable legal and regulatory requirements.

A52. As noted in paragraph 4, effective two-way communication assists both the auditor and those charged with governance. Further, ASA 315 identifies participation by those charged with governance, including their interaction with internal audit, if any, and external auditors, as an element of the entity's control environment.²⁶ Inadequate two-way communication may indicate an unsatisfactory control environment and influence the auditor's assessment of the

²⁶ See ASA 315, paragraph A77.

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risks of material misstatements. There is also a risk that the auditor may not have obtained sufficient appropriate audit evidence to form an opinion on the financial report.

- A53. If the two-way communication between the auditor and those charged with governance is not adequate and the situation cannot be resolved, the auditor may take such actions as:
- Modifying the auditor's opinion on the basis of a scope limitation.
 - Obtaining legal advice about the consequences of different courses of action.
 - Communicating with third parties (e.g., a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (e.g., shareholders in a general meeting), or the responsible government minister or parliament in the public sector.
 - Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

Documentation (Ref: Para. 23)

- A54. Documentation of oral communication may include a copy of minutes prepared by the entity retained as part of the audit documentation where those minutes are an appropriate record of the communication.

Appendix 1

(Ref: Para. 3)

Specific Requirements in ASQC 1 and Other Australian Auditing Standards that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in ASQC 1²⁷ and other Australian Auditing Standards that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in Australian Auditing Standards.

- ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance and Related Services Engagements* – paragraph 30(a)
- ASA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* – paragraphs 21, 38(c)(i) and 40-42
- ASA 250, *Consideration of Laws and Regulations in an Audit of a Financial Report* – paragraphs 14, 19 and 22-24
- ASA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- ASA 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs 12-13
- ASA 505, *External Confirmations* – paragraph 9
- ASA 510, *Initial Audit Engagements—Opening Balances* – paragraph 7
- ASA 550, *Related Parties* – paragraph 27
- ASA 560, *Subsequent Events* – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- ASA 570, *Going Concern* – paragraph 25
- ASA 600, *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* – paragraph 49
- ASA 610 *Using the Work of Internal Auditors* – paragraph 20
- ASA 700, *Forming an Opinion and Reporting on a Financial Report* – paragraph 45
- ASA 701, *Communicating Key Audit Matters in the Independent Auditor's Report* – paragraph 17
- ASA 705, *Modifications to the Opinion in the Independent Auditor's Report* – paragraphs 12, 14, 23 and 30
- ASA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* – paragraph 12
- ASA 710, *Comparative Information—Corresponding Figures and Comparative Financial Reports* – paragraph 18

²⁷ See ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and other Financial Information, and Other Assurance and Related Services Engagements*.

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- ASA 720, *The Auditor's Responsibilities Relating to Other Information* – paragraphs 10, 13 and 16

Appendix 2

(Ref: Para. 16(a), A19-A20)

Qualitative Aspects of Accounting Practices

The communication required by paragraph 16(a), and discussed in paragraphs A19–A20, may include such matters as:

Accounting Policies

- The appropriateness of the accounting policies to the particular circumstances of the entity, having regard to the need to balance the cost of providing information with the likely benefit to users of the entity’s financial report. Where acceptable alternative accounting policies exist, the communication may include identification of the financial report items that are affected by the choice of significant accounting policies as well as information on accounting policies used by similar entities.
- The initial selection of, and changes in, significant accounting policies, including the application of new accounting pronouncements. The communication may include: the effect of the timing and method of adoption of a change in accounting policy on the current and future earnings of the entity; and the timing of a change in accounting policies in relation to expected new accounting pronouncements.
- The effect of significant accounting policies in controversial or emerging areas (or those unique to an industry, particularly when there is a lack of authoritative guidance or consensus).
- The effect of the timing of transactions in relation to the period in which they are recorded.

Accounting Estimates

- For items for which estimates are significant, issues discussed in ASA 540,²⁸ including, for example:
 - How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the financial report.
 - Changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.
 - Whether management’s decision to recognise, or to not recognise, the accounting estimates in the financial report is in accordance with the applicable financial reporting framework.
 - Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates and, if so, why, as well as the outcome of accounting estimates in prior periods.
 - Management’s process for making accounting estimates (e.g., when management has used a model), including whether the selected measurement basis for the accounting estimate is in accordance with the applicable financial reporting framework.
 - Whether the significant assumptions used by management in developing the accounting estimate are reasonable.

²⁸ See ASA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

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- Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.
- Risks of material misstatement.
- Indicators of possible management bias.
- How management has considered alternative assumptions or outcomes and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.
- The adequacy of disclosure of estimation uncertainty in the financial report.

Financial Report Disclosures

- The issues involved, and related judgements made, in formulating particularly sensitive financial report disclosures (e.g., disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingency issues).
- The overall neutrality, consistency and clarity of the disclosures in the financial report.

Related Matters

- The potential effect on the financial report of significant risks, exposures and uncertainties, such as pending litigation, that are disclosed in the financial report.
- The extent to which the financial report are affected by significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. This communication may highlight:
 - The non-recurring amounts recognised during the period.
 - The extent to which such transactions are separately disclosed in the financial report.
 - Whether such transactions appear to have been designed to achieve a particular accounting or tax treatment, or a particular legal or regulatory objective.
 - Whether the form of such transactions appears overly complex or where extensive advice regarding the structuring of the transaction has been taken.
 - Where management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction.
- The factors affecting asset and liability carrying values, including the entity's bases for determining useful lives assigned to tangible and intangible assets. The communication may explain how factors affecting carrying values were selected and how alternative selections would have affected the financial report.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

Tables of Differences —Proposed Revised ASA 260 and Existing ASA 260

Summary of Main Differences — ASA 260 and Existing ASA 260

The table below details the main differences (excluding editorial amendments) between this proposed Auditing Standard and existing ASA 260.

Table 1: New Requirements/Significant Guidance

Item #	New Standard Para. No.	Requirements/Significant Guidance Extract or Descriptions	Commentary
1	16(d)	The auditor’s communications shall now include circumstances that affect the form and content of the auditor’s report.	<p>New requirement in ASA 260, to bring together in the standard, communication of matters to be included in the auditor’s report that were previously located in other Australian Auditing Standards. This includes auditor communications where the auditor expects to modify the audit opinion (previously ASA 705), to include a material uncertainty related to going concern (previously ASA 570), and an emphasis of matter (previously ASA 706).</p> <p>This requirement also now includes the auditor’s communication of any key audit matters required in accordance with new Auditing Standard, ASA 701 <i>Communicating Key Audit Matters in the Independent Auditor’s Report</i>.</p>
2	A9, A13, A18, A23, A24, A49 and Appendix 1	New guidance including that related to ASA 701 communicating key audit matters.	New guidance now takes into account communication of key audit matters required by new Auditing Standard ASA 701.

Table 2: Existing Requirements Not Included in the Proposed Standard

Item #	Existing Standard Para. No.	Requirements, Significant Guidance, Extracts or Descriptions	Commentary
1	Aus 17.1	In the case of entities audited in accordance with the <i>Corporations Act 2001</i> , the auditor shall communicate with those charged with governance a statement that the engagement team and others in the firm as appropriate, the firm, and, when applicable network firms, have complied with the independence requirements of section 307C of the <i>Corporation Act 2001</i> .	In conforming with the ISAs, the AUASB's policy is to limit amendments to the relevant ISA when developing the equivalent Australian standard. Accordingly, references to requirements and guidance originating from outside the Australian Auditing Standards are no longer included in the AUASB's standards.
2	Aus 19.1	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 endeavour to ensure all members are appropriately informed of the contents of the report.	In conforming with the ISAs, the AUASB's policy is to limit amendments to the relevant ISA when developing the equivalent Australian standard. Accordingly, references to requirements and guidance originating from outside the Australian Auditing Standards are no longer included in the AUASB's standards.